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The international bank

New Brunswick, N.J.

1930

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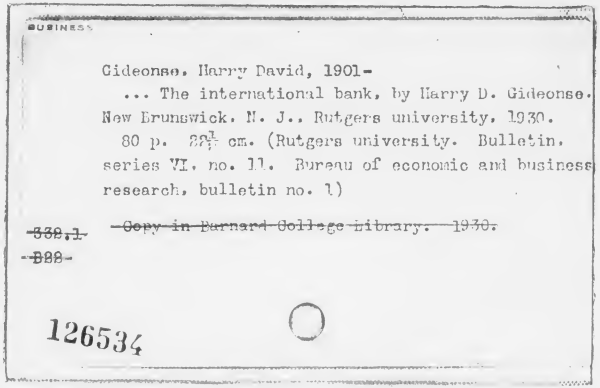
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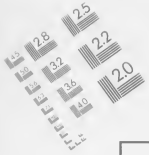

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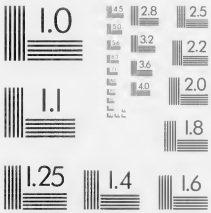

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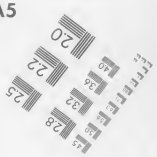

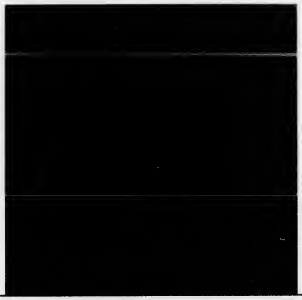

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THE INTERNATIONAL BANK

HARRY D. GIDEONSE

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THE INTERNATIONAL BANK

by

HARRY D. GIDEONSE

New Brunswick, N. J.
1930

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INTRODUCTION

AS the League of Nations and the International Labor Organization arose phoenix-like from the débris of a war-torn and war-weary Europe, so the Bank for International Settlements sprang from the difficulties and hard-taught lessons of the financial liquidation of the war. In the present case—as in the earlier one—we witness the same exaggerations of interpretation. While some are inclined to view the new institution as "innocuous",[1] others are already describing it as a financial octopus that will destroy national sovereignty in economic and financial matters and replace the government of the world by democratic institutions with the oligarchical control of a small group of mutually interdependent banking interests.[2]

Publications on the subject seem to be primarily concerned with either a purely legal analysis of the statutes of the new institution, or with vague future possibilities such as the danger and difficulties involved in the establishment of a "world bank rate"[3] or the desirability of granting to the new institution the right of issue of an international money.[4]

There seems to be a definite place for a simple and realistic examination of the factors in the problem of reparations and inter-allied indebtedness that suggested the need for a broader and more flexibly equipped transfer mechanism that might ultimately take on more general banking functions, if the need for them arose.

This study first traces the history of the reparation problem from the Dawes settlement to the framing of the provisions for "obligatory" reparation functions of the Bank for International Settlements by the Young Committee. The second chapter gives a brief survey of the movement toward a greater degree of international cooperation in the management of the gold standard, particularly with an eye to

[1] James W. Angell, The Reparations Settlement and the International Flow of Capital, **American Economic Review**, Supplement, March, 1930, p. 86. Cf. also E. Welter (ed.), **Die Reparationsbank**, Frankfort, 1930.

[2] See, for instance, the various utterances of Chairman McFadden of the House Banking and Currency Committee. In the course of a speech in the House on July 3, 1930, Mr. McFadden claimed that "this international association of financial organizations under a central control marks a new epoch in world financial history and is the basis of the greatest danger free government has had to face in centuries."

[3] Cf. Paul Einzig, **The Bank for International Settlements**, MacMillan (N.Y.) 1930, chap. IX.

[4] Cf. P. Otlet, **La Banque Internationale**, Brussels, 1929 and the views of Mr. Darling of the Midland Bank (London), infra, p. 44.

the peculiar post-war factors which played a part in its re-establishment. This is followed by a study of the "permissive" or "auxiliary" banking functions of the new institution, as well as by a brief analysis of the Statutes. The concluding chapter discusses the reception which has been accorded to the Bank in the leading countries, with particular reference to American conditions.

The annexes give the Statutes, the Trust Agreement between the creditor governments and the Bank, and the Bank's first monthly statement.

CHAPTER I

THE REPARATION FUNCTIONS

THE Bank for International Settlements (B. I. S.) is the heart of the Young Plan. The experts who drafted the plan made that abundantly clear by the manner in which every single feature of their proposals was made to turn upon the new institution.[5] An understanding of the essential nature of the bank project cannot be gained, however, through study of the text of the Young report alone. It begins to stand out clearly only when the plan is studied in connection with the experiences of the creditor countries between August 30, 1924, when the Dawes Plan was accepted through the London protocol of that date, and September 6, 1928, when the Governments of Belgium, France, Germany, Great Britain, Italy and Japan reached an agreement on the "necessity for a complete and definite settlement of the reparation problem and for the constitution for this purpose of a committee of financial experts to be nominated by the six Governments." Only the trend of that experience will make it clear why the bank project should occupy so large a place in the Young report—as only the circumstances from 1919 to the occupation of the Ruhr could explain the peculiar features of the Dawes Report.[6]

The Dawes Plan

The Dawes Plan was a remedy of despair. From 1919 to 1924 the reparations tangle had gone steadily from bad to worse. It had led to great disillusionment among the Allies, to the complete collapse of the German mark and to the partial breakdown of the French and Belgian currencies due to the continued expenditures for the restoration of devastated areas in spite of the irregularity of the expected German payments. In 1924—after the use of force in

[5] Cf. Cmd. 3343/1929. **Report of the Committee of Experts on Reparations** (hereinafter cited as **"Report of the Experts."**) See particularly Part 5 on the **"Course of the Proceedings."**

[6] With the permission of **Editorial Research Reports** (Washington, D. C.) much of the material in this chapter is drawn from the author's reports for that organization, published on September 17 and 21, 1929, under the title **"The International Bank and the Young Plan."** See also the author's **"Transfert des Reparations et Plan Dawes,"** Payot, Paris/Lausanne, 1928.

the Ruhr had resulted in failure—the political leaders agreed to let experts try their hands at a problem that had completely escaped the control of political methods.

Nominally the experts had their hands entirely free. In fact, of course, their recommendations had to fit into the political realities of the moment. Dalton has described the Dawes Committee as a group of "diplomats, disguised as economic experts".[7] Their report was above all a political compromise, and not the detached opinion of a group of economic experts. It was a compromise between the economic intelligence of the experts and a set of political factors that were flexible to only a limited degree. It was a compromise also between the various national interests of the creditor nations. But even if the plan was born of the meeting of a large variety of political and economic considerations, it remained the first substantial step in the history of the reparation problem, in which economic analysis played a considerable part.

In the light of the experience up to 1924, nothing seemed more important when the Dawes experts met than the recognition of two principles: definite yearly payments within Germany's capacity to pay, and protection of the stability of the new German currency. The heart of the Dawes Plan, therefore, was its recognition of the so-called "transfer principle", that is to say, the Committee—following the idea already recognized by the Financial Committee of the League of Nations in the plan for the financial reconstruction of Hungary—distinguished clearly between (1) the amount of revenue that Germany could raise for reparation purposes, and (2) the amount that could be transferred to foreign countries. The funds that could be transferred, the Committee pointed out, could not in the long run exceed the sums which the balance of payments (which, of course, includes also the so-called invisible items, such as shipping services, bank charges, travel, etc.) made it possible to send out of Germany without incurring the risk of monetary or budgetary instability.

Under the Dawes Plan the payment of the required amounts by Germany in marks to the account of the Agent General at the Reichsbank constituted the definite and final act of the German Government, and—if it did not prove itself uncooperative in other respects—this payment represented a full discharge of Germany's annual responsibility. At this point responsibility of the creditor nations began, and this responsibility was left almost entirely in the hands of the newly organized Transfer Committee.

[7] Hugh Dalton, Towards the Peace of Nations. Routledge, London, 1927, p. 66.

The Development of the Transfer Committee

The Transfer Committee was to the Dawes Plan what the Bank for International Settlements is to the Young Plan. For the purpose of effecting the conversion of German marks into currencies acceptable to the creditor nations, the Dawes Committee recommended the appointment of a Committee of five, an American, a Frenchman, an Englishman, an Italian and a Belgian. All were to be named only after consultation with the central banks of their respective countries, so as to guarantee a genuine cooperation with these important financial insitutions. The Committee was to be presided by the Agent General for Reparation Payments, and was instructed by the Dawes Report in Part IV, Appendix 6:

"A. To apply such bank balances as stand to the credit of the Agent General for payments for deliveries in kind and payments under the Reparation Recovery Act, in accordance with the program established periodically by the Reparation Commission, after consultation with the Transfer Committee as to the character and amount of such deliveries;

B. To convert these bank balances into foreign currencies from time to time and, after conversion, to remit them in accordance with the instruction of the Reparation Commission.

Both the foregoing powers A and B to be exercised to the extent to which in the judgment of the Committee the foreign exchange market will permit, without threatening the stability of the German currency.

C. To invest from time to time in bonds or other loans in Germany such amounts as the Committee may deem wise. The Committee shall proceed to make these investments as soon as the amount of the credits exceeds the sum which the Bank will keep on deposit. On the other hand, the Committee may sell the bonds which it has acquired, or liquidate the loans which it has granted, whenever in its opinion the sums may be converted into foreign exchange, or the Bank can accept additional deposits."[8]

The experience of the Transfer Committee is the basis of the new elaboration of its structure into the Bank for International Settlements. Probably no one in 1924 foresaw the enormous development of interest of foreign—and particularly American—capital in Germany. The influx of dollar exchange made the work of the Committee easy during the first five years but no one could conceal that it would eventually make the task of finding foreign currencies for

[8] Report of the First Committee of Experts (Dawes), Part IV, Appendix 6.

reparation payments even more difficult.[9] Foreign exchange would have to be bought in competition with private German debtors who would, of course, have more flexible means at their disposal to meet their requirements than the formal official machinery of the Transfer Committee—which was furthermore specifically charged with the duty of maintaining the stability of the German currency.

As the years went by, it also became quite clear that German trade in its normal flow would not increase with the leaps and bounds that an economic discharge of the reparation obligations would require. For one thing, German exports are in highly competitive lines —generally finished products of industries which are amongst the most closely protected industries of its great competitors, that is to say, in most cases its creditors. The increase in German exports would not be spread over the total world exports but would be highly specialized—and in a market where the demand is extremely *inelastic*. As Sir Josiah Stamp has observed, Germany's strength "lies in highly specialized products for which demand does not increase greatly with small changes in prices, and a moderate increase in the supply of which is enough to depress prices severely. To make up a given amount of money yield in such articles, therefore, needs a certain effort; to double that yield needs much more than double the production and to treble it is, perhaps, well nigh impossible until new demand grows." [10]

Furthermore the tariff policies of the countries to which Germany would have to direct its increased exports remained very forbidding and, in fact, in many cases showed a tendency to become more severe as German exporters became more aggressive.[10a] Added to this was the paradox that the German annuities would reach their maximum or standard size at a time when the restoration of devastated areas in France and Belgium would be well nigh completed and when therefore the German payments could not be accepted in the form of goods and crude deliveries in kind but, in order to be helpful to the Allies, had to be made in cash so as to enable them to pay off the loans with which they financed the restoration themselves, pending the time in which Germany would be able to make the payments.

[9] Cf. J. W. Angell, The Recovery of Germany (Yale, 1929), pp. 348-361, where the opinion is expressed that for a transition period of perhaps 20 or even 30 years, Germany will have to continue to do what she has been doing since 1924, viz., selling securities and property abroad and negotiating credits in order to obtain the funds required to meet all current obligations. "In other words, during these years Germany's capacity to pay abroad will be determined largely by her capacity to borrow abroad, or to secure the necessary funds from foreign countries in other ways." (p. 356.)

[10] **Reparation Payments and Future International Trade**, International Chamber of Commerce, 1925, p. 43.

[10a] Cf. A. Cabiati, **Der Widersinn der Reparationen und die Internationale Bank**, Berlin 1930, p. 66 et seq.

Artificially Developed German Exports

Opinion therefore began to turn along the line of an artificially developed surplus demand for German goods to be charged to the reparations account—a demand that would be in addition to normal trade and not directly competitive. The problem had reached this stage about a year after the putting into effect of the Dawes Plan. It represents a new turn in the whole discussion of the financial liquidation of the war, because it involves recognition of the fact that there was such a thing as a "capacity to receive payments" of the creditors as well as a "capacity to pay" of the debtor.

At this stage the International Chamber of Commerce appointed a Committee, headed by Sir Josiah Stamp, to study the effect of reparation payments upon international trade as a whole."[11] The report of this Committee, published in 1925 under the title "Reparation Payments and Future International Trade," received comparatively little public attention but it is an illuminating document when read in connection with the Young Plan. It sharply defined the issue between Allied industries which do not desire to see an expansion of German competition, and Allied taxpayers who wish to have Germany relieve them of part of their burdens. Its analysis led to suggestions for practical policy which received increasing support in subsequent years. The Report concluded with a detailed plan for the coordinated use of reparation payments, which has since become known as the "Assisted Schemes."

While recognizing that so long as the "body of taxpayers and the affected industries overlap and represent the same group of people" there is no conflict between national interest and the receipt of German payments in goods, the report added that in practice "the advantages of the reparation payments are so diffused over the country as not to be easily discernible whereas the disadvantages for particular industrial sections are striking and obvious and, therefore, doubtless more vocal. Sometimes political ambitions will be paramount, sometimes industrial, meaning by the latter word, shareholders, industrial leaders and labour." Recognizing therefore that no scheme of reparation payments could reconcile this very real conflict of interest between political and industrial forces in the

[11] The committee was composed of three members: Sir Josiah Stamp, M. Pirelli and M. de Chalendar. Stamp was a member of the Dawes Committee as well as of the Young Committee, Pirelli was a member of the latter.

receiving countries, the Committee stated that "so long as a special reparation scheme represents merely a method of easing the accumulating fund and promoting exports from Germany, and to the receiving country appears nothing but a dumping of alien goods in immediate competition with its own labour and capital, so long will the problem be politically unsolvable. But if every scheme which owes its genesis to the necessity for reparation outlet, at the same time creates a demand for home labour and industry which would not otherwise be immediately called for, the sting of the opposition to it will be drawn. The two interests must be 'married' in each scheme."[12]

For the elaboration of such a "marriage" plan the report recommended that a "standing organization" be set up, the primary object of which would be to spread "the German surplus on the widest scale to all the world, and so preventing a localised slump in prices, enlisting the interests of all parties, deciding relative eligibility of schemes, keeping the total not too large or too small, standardising methods of enquiry and finance, and so preventing the glut of ill-advised and ill-assorted claims which would come from uncoordinated effort with the speculator and promotor rampant."

The general idea of these schemes is that a certain proportion of their expense should go to home labour and industry, while the balance would be supplied by German imports. The standing organization would have as one of its main functions to select only those proposals which could ultimately be placed on the investment market on an independent basis. "No problem," Sir Josiah Stamp observed, "ought to be worse but rather the better, for systematic and orderly regulation and co-ordination, in place of blind and unrelated forces."[13]

The Bank for International Settlements of the Young Plan is based upon a combination of the functions of this "standing organization" of the Stamp Report with those of the Transfer Committee of the Dawes Plan. The latter did not have the required authority to pass on schemes of this nature, its powers were not flexible enough

[12] Ibid., p. 18.

[13] The Genoa Conference had also vaguely endorsed the conception of an International Corporation of which the main object would be the examination of opportunities for undertaking work in connection with European reconstruction and assistance in the financing of such undertakings. This proposal—which had been endorsed by the Supreme Council in a resolution of January 10, 1922 (Cf. Cmd. 1621/1922, pp. 5-6) was the first indication that the creditor nations were growing aware of the fact that the reception of large payments on reparation account might involve sacrifices which could conceivably be handled more efficiently through an international semi-public body than through the separate national public authorities themselves.

and above all the necessary expenses of installation of such projects, which are more or less considerable according to their nature, could not be financed through the Berlin machinery.

In spite of the above mentioned obstacles—to which should be added the impossibility of organizing a demand for German goods through assisted schemes in territory not under the sovereignty of the creditors themselves, such as South American countries, or Russia—a significant number of such projects has already been set going through the machinery of the Dawes Plan. The reports of the Agent General, dated December 22, 1928 and July 1, 1929, tell part of the story. Under the heading of "Public Works and Other Exceptional Contracts" (Dec. 1928) and "Exceptional Contracts" (July 1929) these Reports give a long list of such enterprises, including canalization of the Moselle, harbor installations in Marseilles and St. Nazaire, the boring and equipping of a coal mine in Lorraine, construction work in Madagascar, etc. The total in these two reports comes to more than two hundred million reichmarks for the account of France only. Similar tendencies are developing in Belgium and the smaller creditor countries.

In France, Belgium and Portugal private and semi-public organizations have been set up with the purpose of especially planning such use of the deliveries in kind, and a very large process of working out and testing projects for huge public works in those countries and their colonies has commenced. France and Belgium have been more intimately concerned with this development than England as they have from the beginning taken a large percentage of their reparation receipts as deliveries in kind. Now that the crude deliveries are becoming less necessary because of the completion of the restoration work, the pressure for a substitute method of receiving payments steadily increases.[14] As the result of a conference of all the interested parties in France and in Germany in May and June 1926[15], resolutions were drawn up suggesting modifications in the cumbersome procedure. A bill was introduced into the French Parliament on January 18, 1927 which gave the Government authority to reduce the formalities, to establish a standard procedure, to regulate the credit features of these projects and to provide favorable customs rates

[14] Thus far England has not made any concessions to Germany along this line and through the operation of the Reparation Recovery Act has managed to receive its payments very largely in cash, whereas France has taken almost two-thirds of hers in the form of goods. Cf. Harry D. Gideonse, **The Reparation Settlement of 1930**, Foreign Policy Association **Information Service**, May 14, 1930, pp. 85-86.

[15] Cf. L'Europe Nouvelle of April 28, 1928, p. 600.

for German goods imported for such public works. This law was passed on March 24, 1928.[16]

Most of the projects that have been undertaken to date are alike in their essential features. It might clarify the present developments under the Young Plan to study a few of them in some detail. They all involve the use of a considerable percentage of German material and they demand a certain amount of financing in the creditor country for the purchase of sites, and materials near the sites, and in general for installation expenditures. Some of the projects involve the use of German labor and thus reduce the installation costs in the creditor country to some extent, but the detailed arrangements in such cases have proved extremely difficult.

The colonial projects which are likely to be the most important, are generally for the development of electrification works, railroad construction, harbor improvement, or other public works. Thus the plans for the construction of railroads and waterworks in Indochina provide for the use of large shipments of German goods, in payment for which the Indochinese government signs 5 per cent bonds to the Paris Government. The German products are paid in reichsmarks from the French share in the reparation annuities. In this case the advantages to both parties are quite clear. Paris received a series of bonds which are particularly acceptable to its bondbuyers in return for its German credits, and Indochina enjoys very much more favorable treatment than it would receive in negotiating credits under ordinary circumstances.

The project for construction of the Trans-Saharan Railway which is now coming up for serious consideration, illustrates a much more risky type of enterprise, in which the Government seems certain to lose part of its claims. The plan was worked out by the *Comité du Transsaharien* with the aid of data submitted by Senator Mahieu, formerly of the Ministry of Public Works. The details have been kept rather secret in order to avoid political conflicts as to the basis of the railway, but it is understood that the project will cost about two and a half billion francs and it is expected that extensive development of various types of horticulture in regions South of the Sahara will result, because of the economic possibilities provided through rapid transit to Southern Europe. Here obviously the Government aid will be a subsidy. In a number of years some returns may be

[16] When the creditor nations begin to translate their will to receive payments into a commercial policy that will make them possible, difficulties with third parties are bound to arise because of resentment against "discriminatory" treatment. The Franco-American and Franco-Swiss tariff controversies of recent years are good examples. Cf. Harry D. Gideonse, Franco-American Tariff Difficulties and Inter-Allied Debts, **The Tariff Review**, March, 1929.

received but a considerable percentage of the principal may never be collected by the French Treasury. In order to induce private capital to undertake the installation expenditures, it will be necessary to make it quite clear that the French Government's claims for return on its investment are decidedly secondary to the claims of the private creditors—a condition which may make such plans rather difficult of execution politically, and which is likely to arise in all projects where considerable private financing is required to supplement the investment made by the Government through transfer of reparation credits.

The greatest present obstacle to wide employment of the idea of the "assisted schemes" lies in the relatively small number of appropriate projects that have been found to be commercially attractive. Most of the worthwhile plans have already been discovered by private enterprise. Here and there public authorities may locate a project which only a careful public study could disclose or which is capable of exploitation only through public assistance. The number of such projects, and the amounts involved, seem to be small, however. Most of the other projects are likely to be of a developmental nature—projects that are more or less premature, but which may be undertaken to hasten development of the territories involved or because of considerations of public policy. The larger number of such enterprises will not be capable of commercial exploitation, unless the terms granted by the Government amount virtually to a subsidy, that is, unless the Government foregoes a considerable percentage of its claims. In such cases the Government, therefore, not only does not receive immediate relief for the Treasury from the reparation payments, but it has in many cases to borrow money for installation purposes, and to cancel part of the investment it has made through the use of reparation credits. The creditor country then receives much less relief financially than is represented by the sacrifice of the debtor country. And although such projects may eventually become paying propositions, an investment which only begins to pay a reasonable return after a number of years, is, of course, partially cancelled in its principal, if considered from the standpoint of present value.[17]

[17] More than two-thirds of the reparation receipts of the creditor nations will ultimately be turned over by them to the United States in the form of payments on the Inter-Allied debts, and it has been assumed that such payments would be comparatively simple because the allies would simply transmit to the United States the **devisen** which Germany had transferred to them. For England, which receives almost all of its reparation in cash, it is indeed a simple transaction; for the other creditors and especially for the largest one, France, this problem becomes a very different one through the fact that their receipts from Germany will in large part be "frozen" in the form of railroads, plant improvements, etc., which the Allied Governments had to assist in financing (installation expenditures) and which therefore will not only fail to bring relief to the French Treasury, but will actually appear as a debit during the years of execution.

A systematic search for worthwhile ventures does seem, however, to add to the possibilities, and now that the method is beginning to prove successful wherever it can be applied, the demand arises that other markets, sometimes of a more immediately fruitful character than the colonies, be opened to such projects. The eyes are directed towards South America,[18] China, Russia, and other areas outside the sovereignty of the creditor nations themselves. Here political difficulties and possibilities of conflict with industries which are beyond the control of the reparation creditors, increase—and here precisely is where the new Bank for International Settlements will have to perform its functions in welding together still broader interests than those of the industrial groups and the taxpayers of the creditor nations.

Reparation Functions of the Bank

At the outset of its Report, the Young Committee admitted that it, like the Dawes Committee, had had to base its decisions "not only on economic, but also to some extent on political considerations."[19]

Farther on the Committee said:

> "The Dawes Report made no attempt to establish the causes leading up to the situation which its provisions sought to ameliorate. In adhering to this precedent we have attempted to go further, and, through the proposed creation of the machinery which we recommend, to set up an institution whose direction from the start shall be cooperative and international in character; whose members shall engage themselves to banish the atmosphere of the war, to obliterate its animosities, its partisanships, its tendencious phrases, and to work together for a common end in a spirit of mutual interest and good-will."

The first subject for the experts to settle was the amount of the annuity, and more important than that: the total number of payments to be made by Germany—a question which the Dawes Plan had left undecided. Under the Dawes Plan the standard annuity of 2,500 million reichsmarks was to be augmented every year by a fluctuating amount to be determined by an index of prosperity. For this a definite obligation was to be substituted by the Young Committee. But the experts explain—and this would seem to be a most significant indication of their intentions as to the work of the B. I. S.—that

[18] Judging by the activity displayed by the Argentine delegates at several meetings of the International Federation of League of Nations Associations, such projects would be welcomed in South America. Reports by M. Lodi, **Projet de colonisation et la monnaie internationale** and by Dr. Juan B. Sivori (at the Madrid meeting of May, 1929) elaborated this position. Cf. also M. Lodi's proposal to the Young Committee for the financing of these projects in **The Standard** (Buenos-Ayres), May 4, 1929 (quoted by Otlet, **op. cit.**, p. 166).

[19] *Cf.* Carl Bergmann, **Germany and the Young Plan**, Foreign Affairs, July, 1930.

they "soon found the amounts were to a considerable extent contingent upon the machinery and form of payment and, therefore, that they were not at that stage ready to reach a conclusion either as to the amount of the annuities or the number of years during which they should continue."[20]

Moreover, the experts say, the nature of the annuities becomes different if the existing transfer protection, which involves a considerable degree of foreign control in Germany, is lifted. As the transfer protection was looked upon as an asset to the Germans—a guarantee that the demands of the Allies would cease in case of detrimental effects on the German currency—the Germans would certainly expect in consideration of such a concession a considerable cut in the annuity. The Allies—and particularly France, which is the chief beneficiary—would expect in return for such a reduction a guarantee that at least a part of the annuities could be immediately capitalized or "mobilized."

Out of these conflicting tendencies the scheme of division of the annuities into two parts was born. The first part is designated as "unconditional." These 660 million reichsmarks—about 157 million dollars—are to be "payable without any right of postponement of any kind in foreign currencies." This part is to be guaranteed by the receipts from the German Railway Co. and is to be paid into the B. I. S. directly. The creditors are given authority to "mobilize" this part of the annuities and Germany is to make a specific distinction in the certificate of indebtedness to be filed with the B. I. S. covering the unconditional part of the annuities.[21]

The rest of the annuity will "in case an exceptional emergency interrupts the normal course of economic life to which the scheme is adapted" be subject to postponement of transfer and even, under certain circumstances, of payment. "Germany will thus be enabled, under certain circumstances, temporarily to relieve her balance of payments and will, in fact, enjoy the advantages of a form of transfer protection without its attendant limitation."[22] In case the German Government gives the required 90 days' notice for such postponement, the B. I. S. will convene a special Advisory Committee which shall "forthwith consider the circumstances and conditions which have led up to the necessity for postponement" and "they shall indicate

[20] **Report of the Experts**, Part 5, par. 1.

[21] It is noteworthy, incidentally, that the paragraph covering the possibility of mobilization does not show a great deal of enthusiasm: "Certain Governments are known to attach particular importance to the possibility of raising money by the issue to the public of bonds representing the capitalization of the unconditional portion of the annuity ('mobilization')" (Part 10, par. 2).

[22] Ibid., Part 11, sec. 4.

for consideration by the Governments and the bank what in their opinion are the measures that should be taken in regard to the application of the present plan."

In other words, the Young Committee is hereby seeking to take the power to modify existing arrangements by new expert examinations out of the hands of the political leaders and making it an automatically functioning part of the B. I. S. Elsewhere in the Report the same idea is expressed:

> "The idea was also put forward that if such a situation (postponement) arose, it was desirable for it to be immediately considered by an appropriate non-political committee, acting in an advisory capacity to the Powers concerned and meeting unostentatiously without waiting to be constituted by the lengthy process of diplomatic action."[23]

Continuing its analysis, the Young Committee points out that the payment of part of the annuities through the system of deliveries in kind has come to play an important role in the economic life of Germany. In order not to upset present habits of production and consumption, the experts therefore recommend that the present scheme be prolonged for at least ten years, commencing with 750 million marks and decreasing to 300 million in the tenth year. These are the so-called crude deliveries: coal, chemicals, etc. Here the experience since 1924 has apparently removed some of the criticism which the Dawes Committee levelled at these deliveries as an infraction of transfer protection because Germany imports raw materials to enable her to manufacture articles for export, a criticism which also applies to the "exceptional contracts" or "assisted schemes." The distribution of the deliveries in kind, the contracts, payments, etc., are all transferred to the new B. I. S.

Thus far we have met with the following functions for the B. I. S. which arise directly from the development of the reparation problem since 1924, and the removal of direct control of German economic life through the existing machinery in Berlin and the Reparations Commission:

1. Service as a trustee to whom the payments in foreign currencies and reichsmarks are to be made by Germany and by whom the distribution to the appropriate recipients is to be managed.

2. Service as a common centre of action and authority in the problems of mobilization and commercialization for the purpose of cordinating and controlling the arrangements—a service which requires an authority of a continuous and permanent character in order to obtain the confidence of prospective bond buyers.

3. Service in directing and controlling the continued existence of deliveries in kind, at any rate for a period of years, and perhaps—through the operation of the Advisory Committee in case of difficulties with the postponable part of the annuity—for the entire duration of the plan.

4. Authority to take the necessary action in connection with a declaration of postponement of the postponable part of the annuity, including the convening of an Advisory Committee—international in character and existing as a constituent part of this central authority—to consider the situation which had brought about a necessity for a postponement or the situation which a postponement itself created.

5. Authority to arrange for the discharge, either exceptionally or regularly as part of the plan, of payments in marks within Germany (for instance in case of postponement of transfer or of purchases of German goods) and authority to dispose of such funds and assets in the interests of the creditors by arrangement with the Reichsbank or other German authority.

In addition to these five central functions of the new authority which would have to be established, the Young Committee remarked:

> "Moreover, in, so far as the task of transferring the payments into foreign currencies involved, besides a restriction of imports, an extension of German export trade, we envisaged the possibility of a financial institution that should be prepared to promote the increase of world trade by financing projects, particularly in undeveloped countries, which might otherwise not be attempted through the ordinary existing channels."[24]

This paragraph is undoubtedly the key to an understanding of the B. I. S. References all through the different parts of the report support this conclusion. In Part 6, on the functions of the Bank, it is said that:

"The institution will be equipped with machinery which will provide an elastic element between the payments to be made by Germany and their realisation."

Farther on the experts say that they believe that "by judicious non-competitive financial development the Bank should prove a useful instrument for opening up new fields of commerce, of supply and of demand, and will thus help to solve Germany's special problem, without encroaching on the activities of existing institutions."

Also:

> "These new facilities should not supplant, but should augment and perfect existing arrangements for carrying through inter-

[23] Ibid., Part 5. These clauses are to the Germans the most important part of the whole plan. Aside from the mobilized part of the annuities, Gustav Stolper observes in **Der Deutsche Volkswirt** of June 7, 1929, the whole plan is "provisional" and subject to future revisions." He recognized, however, that "revisions" will be particularly difficult in the future as everything is now tied up with the interallied debts and would consequently require the official collaboration of the United States.

[24] Ibid., Part 5, last par.

national settlements. The Bank will have (a) as its essential or obligatory functions those which are inherent in the receipt, management and distribution of the annuities, and (b) as its auxiliary or permissive functions those which evolve more indirectly from the character of the annuities. There is no hard and fast line between the two sets of functions because the first lead naturally into the second."

And in Part 11, the Bank is said to be "in a position to open up to trade new possibilities of development."

A Flexibly Equipped Transfer Committee

The Bank then, represents the recognition by the experts that a considerable percentage of the postponable part of the annuities will never be realized by the creditors unless they make special efforts to receive these payments—unless in other words the reception of German goods abroad is organized and partially financed by the creditors themselves. The B. I. S. corresponds to the "standing organization" of the Stamp Report of 1925, set up on an international scale and furnished with flexible authority as to financing, distribution of payments, authority temporarily to release the pressure upon Germany, and so forth.[25]

But the B. I. S. represents something more than this. Thus far we have met with no reason why the institution should be called a "bank." So far as its reparation functions are concerned, the new institution is nothing more than a glorified and more flexibly equipped transfer committee. The auxiliary or "permissive" functions—more strictly of a banking nature—which, as the experts said, evolved "from the character of the annuities," have attracted much wider attention than the "essential or obligatory" reparation functions. They are studied in some detail in the next chapter.

[25] Some commentators on the reparation functions of the B. I. S. take an extremely narrow view of the possibility of their development. L. D. Edie in **The Deltasig**, June, 1930, pp. 280-281 says: "... It has been proposed that the new bank grant export credits to Germany, make loans to retarded countries, and in general stimulate world markets. Unhesitatingly we say that this part of the original program over-reached itself. At this point some of the language of the report of the Young conference sounds quite fantastic. The prime backers of this idea were the Germans and they would be bitterly disappointed if the bank were prohibited from making large loans to finance German exports. Some of the delegates had the notion that the new bank would develop Russia and China. These notions deserve to fall to an early death. The bank is at best looked upon by private bankers as a dangerous competitor. If it undertook all these things, its competitive aspect would be maddening to private financial circles. The opposition is so great that we need look for little significant development along such lines." Cf. also W. Lautenbach in **Die Reparationsbank, cited**, p. 34.

We have dealt with most of these factors in this chapter. It is, of course, not necessary for the B. I. S. to grant the credits itself, it might simply foster such developments as a central coordinating body and handle the financing through especially organized corporations.

CHAPTER II

THE BANKING FUNCTIONS

THE banking functions of the Bank for International Settlements represent the outcome of a long and interesting chapter in the history of the gold standard, of which only a bare outline can be sketched here.

Before 1914 the gold standard had been so well established that critical discussion of its weaker aspects had a purely academic interest. A continuous series of relatively small adjustments was sufficient to maintain international financial equilibrium and the long-term secular price trends were generally not spectacular enough to attract a volume of public attention sufficiently imposing to force a public re-examination of fundamentals.

Private efforts—some of them in remarkably high places—were plentiful however, and the literature of the subject is full of interesting projects, especially after the formation of the Latin Monetary Union, which opened vistas of wider possibilities. Perhaps the most interesting individual contribution was the memorandum which Professor Julius Wolf drew up in 1892 for the International Monetary Conference at Brussels. Wolf, who, in his early academic experience at Zürich, had studied the monetary system of the twenty-two Swiss cantons with their thirty-odd banks of issue, had elaborated suggestions to overcome the "gold scarcity" of the time by a scheme of gold economies which included an international transfer (*giro*) system, an international clearing organization, and an international bank note.[26]

The new Transvaal gold discoveries removed the sting of the gold scarcity and public attention was not drawn forcefully to the problem again until the crisis of 1907 which brought a detailed proposal from the Italian scholar and statesman Luzzatti, and from the Republican Secretary of the Treasury, George B. Cortelyou. Luzzatti's scheme called for a direct cooperation of the existing institutions, but Cortelyou's actually envisaged the possibility of more

[26] Cf. Julius Wolf, **Verstaatlichung der Silberproduktion und andere Vorschläge zur Währungsfrage** (1892). The subject continued to have Professor Wolf's interest, cf. **Eine Internationale Banknote, Zeitschrift fur Sozialwissenschaft** (1908), and **Comité permanent et conférences périodiques des grandes banques d'emission. Vorhandlungen der Mitteleuropäischen Wirtschaftskonferenz in Brussel**, 1912.

permanent official control. We quote at some length from his report in 1908 as Secretary of the Treasury.

"The advantage of reducing to a minimum the transfer of gold between the financial centers of the world has been often discussed, but has not yet been the subject of official action. Economy in such transfers has come about automatically from time to time by the extension of the system of bills of exchange and of the use of international credits. Distrust of these resources in times of crisis—the very moment at which they are most needed—invokes the demand for physical gold. Even under ordinary conditions, the interval between the outward crop movement from this country and the payment for foreign merchandise imported in the spring is often marked by shipments of gold in both directions, which the mechanism of international exchange has not yet found the means of entirely avoiding. * * *

"It would seem that means might be devised to diminish the transfer of physical gold under these conditions. That credits or loans of gold might be extended more generously than at present by one nation to another in times of stress was proposed soon after the crisis of a year ago. It has been suggested that an international conference be called of representatives of the ministries of finance and of the great state banks with a view to more prompt and effective cooperation in emergencies. It is not proposed here to enter upon a general discussion of this subject, but if such a conference should be held, there might well be included in the list of topics to be considered the creation of an international gold certificate, which would represent for all practical purposes the transfer of gold coin or bullion without the necessity of transferring the metal itself.

"Such an arrangement would require international sanction, either by an agreement among the leading banks of the world to issue a transferable international certificate upon a certain amount of gold coin, definitely set aside for the purpose, or an agreement through diplomatic channels among the several governments to some similar agreement under official control.

"In the present advanced state of public faith and of financial responsibility there is apparently no serious obstacle to reaching such an agreement if measures are once set on foot by those capable of carrying it out. The issue of such international certificates, payable on demand, like the gold certificate of the United States, would not prevent the transfer of the physical gold when desired. The certificates might be redeemable in all countries which were parties to the agreement, without regard to the country in which they were issued, and it might be left to those in charge of the gold funds to determine from time to time whether physical transfers of gold were required. Actual transfer might be advisable where there was reason to believe that the movement was more or less permanent in character, but it would seem that such transfers might be reduced to the minimum where it seemed probable that the metal would be recalled by the normal movement of trade within the space of a few months. It is suggested that the Secretary of the Treasury might be authorized to receive hospitably any suggestion on this subject from abroad and to appoint through the proper channels delegates on behalf of the United States to any conference which might be assembled having the subject within the scope of its deliberations."[27]

This interesting official proposal which was based on American experience, followed its predecessors into comparative oblivion. Public opinion was not prepared for a critical discussion of certain phases of the gold standard so soon after the political struggle which had established that same standard in preference to silver or bimetallism. It took the violent upset of the World War with its destruction of European currencies to enable a new generation to re-examine some of its monetary fundamentals.

The Post-War Gold Standard

The World War abundantly illustrated both the weak and the strong points of the gold standard. The displacement of gold in European countries under the pressure of war needs had directed enormous stocks of the metal towards the vaults of the Federal Reserve System where the accumulation of these redundant supplies tended to depress the value of gold in comparison with other commodities.[28]

As the gold standard was re-established in the greater part of Europe, the value of gold in terms of commodities tended again to increase and the countries which were striving to establish or to maintain the gold standard entered into more or less open competition with one another for shares of the existing supply of the metal. While economies in the use of the metal were realized in some cases through the elimination of gold coin (gold *bullion* standard and gold *exchange* standard) they were offset by the new legal reserve ratios which—as, for instance, in France—had an effect which is not fully measured by the new ratios themselves since the bank management generally desires to accumulate a margin of safety over the required legal minimum. Flexible management of gold reserves is thereby confronted with a definite legal obstacle which tends to acquire political and emotional significance in a large number of countries. Gold becomes—as J. M. Keynes expressed

[27] Cf. **Annual Report of the Secretary of the Treasury** (1908), pp. 84-85.

[28] Cf. G. Reinold Noyes, **Gold Inflation in the U. S., 1921-29. American Economic Review**, June, 1930.

it—a "fetish" of which the "ritual observances" are "continued after they have lost their meaning." "If the law provides that the Central Bank must keep not less than (*e.g.*) 30 per cent of the note issue in gold, this gold is locked up and might just as well not exist for the purposes of day-to-day policy. A bank's effective reserve to meet emergencies is, therefore, not its total reserve, but the excess over its legal reserve. It follows that, if the legal reserves of the Central Banks of the world are fixed at a high figure, and if they prefer gold in their own vaults to liquid resources in foreign centers, then there may not be enough gold in the world to allow all the Central Banks to feel comfortable at the same time. What helps each country (to protect its gold reserves) is not a high bank-rate, but a higher rate than the others. So that raising of rates all round helps no one until, after an interregnum during which the economic activity of the whole world has been retarded, prices and wages have been forced to a lower level."[29]

There is nothing sacrosanct about the legal ratios which have been fixed in the various national banking laws. It is well known that the question is decided on purely opportunist grounds and the level that is at present accepted as safe, is largely the result of a series of historical accidents.[30] Because Wagner took Tooke's side in advocating a reserve of one-third, the Reichsbank accepted a ratio that in turn impressed those who drafted the Federal Reserve Act—and since the shift in financial relationships which the war brought in its wake, the Federal Reserve System in its turn serves as a model for new ratios elsewhere.[31]

Fluctuations in the General Price Level

Fluctuations in the purchasing power of gold in terms of commodities have been of unusual violence since 1914. While the index number for wholesale prices in the United States (100 = 1926) fell from 56.2 in 1890 to 46.5 in 1896, it rose to 69.8 in 1913 and then to 154.4 in 1920. It fell to 97.6 in 1921, recovered to 100 in 1926 and

[29] J. M. Keynes, **The Nation and Athenaeum**, Jan. 19, 1929, p. 545.

[30] As Professor Sprague of Harvard has pointed out, "the strength of a banking system is measured by the character of the loans and investments of the banks, not by the possession of a little more or a little less gold. Far better a price level ten or fifteen years hence here and elsewhere at about present levels and 25 or 30 per cent gold ratio at the reserve banks than a much higher ratio and a much lower price level." **American Economic Review, Supplement**, March, 1929, p. 64.

[31] It is often overlooked that Sec. 11 (c) of the Federal Reserve Act authorizes the Federal Reserve Board "to suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act," provided certain graduated taxes are paid on the excess by the Federal Reserve Bank.

then fell through 97.7 in 1928 and 96.8 in March, 1929 to 90.7 in April, 1930.[32]

Every sharp fluctuation in prices brings about the worst type of redistribution of income and, as Sir Josiah Stamp has repeatedly said, the unsettlement of general business, the dislocation of existing wage agreements, the shifting burdens imposed on debtor and creditor—in international relationships as well as in purely national—tend to make the problem of the price level "the most important single problem of our age."[33] The greater the rôle of credit in our economic relations, the more we resort to specialized and long-term transactions—such as the sixty-year period of payments under the Young Plan—the greater the political, economic and social consequences of instability.

Professor Gustav Cassel[34]—and many others— have shown us that the supply of gold which is currently produced in the gold-mining countries, will not prove to be adequate under the existing monetary methods to support a volume of credit sufficiently large to maintain the present price level. The problem will have to be approached from the demand side, that is, from the side of monetary policy. There are many avenues of approach, such as a more equal distribution of the world's gold reserves, the elimination of competition between Central Banks, the granting of a greater discretion to Central Banks in the application of reserve ratios, encouragement of more extensive use of credit instruments following the English and American example and finally, international pooling of reserves.

The gold question, then, has become one of acute practical significance.[35] Whether or not the fall in prices which has continued to take place during the last five years in most gold-standard countries, is evidence that the impending "gold scarcity" has become a reality, is a moot point. In many cases the declines can be traced to specific influences affecting the commodities in question. At any given

[32] Bulletin of the United States Bureau of Labor Statistics, No. 493, p. 237. Chairman McFadden of the House Committee on Banking and Currency sees in the falling price level a decision by a bunch of "geniuses in the management of credit," who had attempted a "defiance of the laws of economic gravitation." "In 1928 these men convened themselves and decided that a readjustment was imperative. * * * We are only beginning to feel the effect of this decision by economic powers." Cf. **The New York Times**, July 4, 1930. The implication of the speech was that J. P. Morgan & Co. were responsible.

[33] Sir Josiah Stamp, **Spectator**, Nov. 3, 1928.

[34] Cf. Gustav Cassel's Memorandum on the World's Monetary Problems, prepared for the League of Nations' Financial Conference at Brussels (1920), and also his **Post-War Monetary Stabilization** (Columbia University Press, 1928).

[35] For recent discussion, cf. E. W. Kemmerer, **Bankers Magazine**, March, 1929; A. A. Young, **The Annalist**, Jan. 18, 1929; B. Ohlin, **Index**, Feb. 1929; A. Boer, **Weltwirtschaftliches Archiv**, April 1930; G. Cassel, **Währungsstabilisierung als Weltproblem** (Leipzig, 1928); and L. D. Edie, **Capital, the Money Market and Gold** (University of Chicago Press, 1929). Cf. also the interesting **Bulletin of The Stable Money Association** (104 Fifth Avenue, New York City) and Ridgway, **Summarized Data on Gold Production**, U. S. Bureau of Mines, Economic Paper 6 (1929).

moment it will always remain difficult to distinguish the secular trend of prices amongst the confusing variety of other factors which influence price fluctuations. In general, however, it may be presumed that so persistent and widespread a price decline as we have witnessed in recent years furnishes fairly conclusive evidence that the course of prices is at least to some degree being affected by an inadequate supply of gold. However that may be, from a public point of view the significance of the price movements of the last five years lies primarily in the fact that they have opened many minds which were previously closed to the very existence of the problem, to an acute realization of the difficulty.

This explains the striking contrast between the reception accorded to the recommendations of the Young Committee and that accorded to the advice of the experts which had gathered at Brussels in 1920 and at Genoa in 1922. The *Resolutions* of the Finance Commission at Genoa began with the broad statement:

> "The essential requisite for the economic reconstruction of Europe is the achievement by each country of stability in the value of its currency."[36]

The experts then expressed their conviction that under the post-war conditions such stability could only be realized through a greater measure of coordination and deliberate effort than was required under the relatively simple pre-war conditions. Measures of currency reform would be facilitated—they pointed out—by "the practice of continuous cooperation among Central Banks of issue, or banks regulating credit policy in the several countries." Such "co-operation of Central Banks, not necessarily confined to Europe, would provide opportunities of coordinating their policy."[37]

The Commission therefore recommended the conclusion of an International Monetary Convention.

> "The purpose of the Convention would be to centralize and coordinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold, which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves. The Convention should embody some means of economising the use of gold by maintaining reserves in the form of reserve balances such, for example, as the gold exchange standard, or an international clearing system."[38]

[36] Cf. **Cmd. 1667/1922. Papers Relating to International Economic Conference, Genoa, April-May, 1922,** particularly Part III—**Report of the Second Commission (Finance),** pp. 59-67. For the report of the committee of experts (which included Sir Basil Blackett, Gustav Cassel, G. Vissering, H. Strakosch, etc.) which prepared the Resolutions of the Genoa Conference, cf. Cmd. 1650/1922. See also M. A. E. Janssen, Note on the Plan for aan International Clearing House, League of Nations (1922), E. F. S. 270. A. 15-8.

[37] Ibid., Resolution 3.

[38] Ibid., Resolution 9.

The experts became even more specific in the suggestions which they submitted for the consideration of the recommended meetings of the Central Banks and proposed, amongst other things, that credit should be "regulated not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold,"[39] although it was clearly the intention to leave the Central Banks a great deal of discretion in the execution of such a project.[40]

The Genoa Conference, therefore, had planted the germ of the idea of official and regular Central Bank cooperation with an eye to the stabilization of the purchasing power of gold. The idea proved premature—as the proposals at Thoiry for the mobilization of the German annuities proved premature in 1926 and were only realized in the reparation settlement of 1930—but it is well to recall them to mind, if only to answer the objection which is sometimes heard in official circles in the United States, that the banking functions of the Bank for International Settlements represent a startling and revolutionary development which sprang from a clear sky in the Report of the Young Committee in 1929. The very reverse is the case. Similar to the gradual growth of the need for a more flexibly equipped transfer mechanism—which accounts for the reparation functions of the Bank—a long and closely linked series of developments which are the natural consequence of the pecularities of the post-war gold standard, accounts for the banking functions of the new institution.

The Banking Functions of the B. I. S.

After Genoa a loose system of cooperation of the leading Central Banks gradually developed as the different "stabilizations" made cooperative credits necessary. The heavy support which the Federal Reserve Bank of New York granted to the Bank of England when it took the decisive step in April, 1925, and the conferences of the representatives of the Federal Reserve Bank of New York, the Bank of England, the Bank of France, and the Reichsbank are recent history, as well as the criticism which these gatherings provoked here and there in advocates of banking "isolationism."[41] These

[39] Ibid., Resolution 11, Sub. 7, p. 62.

[40] The Finance Commission at Genoa recommended (Ibid., Resolution 12) that the Bank of England should call a conference of central banks to consider these proposals and to draft recommendations for the International Monetary Convention.

[41] Cf. the speech delivered by Representative Louis T. McFadden, chairman of the Committee on Banking and Currency, United States House of Representatives in the House on February 10, 1930; also his article entitled "Trans-Atlantic Finance" in the **Saturday Evening Post,** October 19, 1929. For a critical discussion of his opinions, cf. E. E. Agger, "Can the Federal Reserve System be Internationally Isolated?" **American Bankers Association Journal,** March, 1930. See also L. T. McFadden, **Annals,** July, 1930, p. 53.

scattered efforts at cooperation, as well as the work which the League of Nations had initiated towards the stabilization of the purchasing power of gold, are now to be systematized and will be given a permanent and continuous character through the banking functions of the B. I. S.

These banking functions—which are "permissive" and "auxiliary" as distinguished from the "obligatory" reparation functions — are likely to appeal to a very different group of interests in the economic life of the different countries than the reparation functions, and it is quite possible that it was precisely for this reason that these "permissive" functions were assigned to the same institution which was to execute the difficult "obligatory" functions. The latter, as Sir Josiah Stamp foresaw in his Report to the International Chamber of Commerce, are of two kinds: first, the determination of the *capacity to pay* of the debtor, and second, the gradual determination of the *capacity to receive* of the creditors. The second determination will seem highly artificial to all the creditors as long as questions of capacity to pay remain unsettled, but will take on increasing reality as payments begin to be made, or as preparations begin to be made for the actual transfer of goods in payment. Industries in fields of production that are also fields of the debtor nations' industries, will protest against any arrangements which would interfere, or might conceivably be interpreted to interfere, with their own trade prospects. And a government which insisted upon receiving payments in this manner as a means of lightening the burdens of its taxpayers, would stand in great need of some other arguments to convince influential elements in its public opinion of the desirability of the new policy.

Obviously the industries of Great Britain—and to a less degree those of the United States—are the most intimately concerned in any great and well-organized expansion of German exports. Not that many of the contracts for the "assisted schemes" would go to the British industries in case the German payments were not available, for, from the very nature of these "schemes," they are of a special, often semi-public, character and perhaps generally not immediately profitable. Under normal conditions the contract would therefore perhaps not have been given out at all. It is also true that general benefits would accrue to all industries because of the necessary economic transfiltration which the improvement of ports, railways, power plants, etc., would bring along. But inevitably the attention of these British industries would be focussed upon the immediate

activities of their German competitors and protests would follow against the work of an organization like the B. I. S. Unless other legitimate and important interests in these competing countries were convinced for reasons of their own of the desirability of such new machinery it might prove difficult to have it accepted politically.

The banking and gold reserve functions of the B. I. S. may perform this useful function for the creditor countries. They have been given a good deal of attention and publicity and it is possible to surmise that this may have been their chief function in the plan.[42] England has since its return to the gold basis always been in a more or less precarious situation. Many British economists think that the return was too rapid and that it sacrificed industrial interests to the interests of the City. Whatever the merits of that controversy may be, it is a fact that the Bank of England and the stability of the pound sterling have frequently, during recent years, depended upon the actions of American and French banks: American banks because the generally prosperous conditions here attracted foreign money to the New York Stock Exchange; the Bank of France, because France reversed the British method and stabilized rather below the possibilities indicated by the purchasing power of her currency, and consequently found herself with a large gold reserve considering the low, new legal value of the franc. Large quantities of francs which had fled the country during the fall of the currency, suddenly returned, and the Bank of France saw its foreign holdings —including particularly the London and New York markets—increase by leaps and bounds.

As a consequence of these factors there is a general nervousness in London financial circles over gold shipments and the dependence of the stability of sterling upon foreign markets. In such a situation ready favor is likely to be won by any system which might economize the use of gold, obviate the actual shipments of the metal and thereby remove one of the causes of a nervous tension that is particularly painful in view of a proud and deeply cherished tradition. American cooperation in the financing and facilitating of reparation contracts would also be difficult to obtain were it not closely associated with a scheme for the centralization of the world's gold settlements which would appeal to the American financial world because of its recent and salutary experience with the Federal Reserve System. The

[42] When the Statutes were drafted at Baden-Baden, the banking functions were placed first among the functions of the B. I. S., the reparation functions second. The experts had placed the "obligatory" functions first, the "permissive" second. The first monthly statement of the B. I. S. (Cf. Annex III) omits the word "reparation" and speaks of "special deposits."

latter has in many respects been a model for the B. I. S., at least in so far as its banking functions are concerned.

Those who see nothing more than a "selling argument" in the banking and gold settlement functions of the B. I. S. tend to overlook the fact that there are—as we have pointed out above— enormous advantages to be gained through the creation of an instrument of permanent and continuous cooperation between the leading central banks—an instrument which, because of its permanence and continuity, will not attract world attention to every minor crisis as irregular meetings of the central banks are now apt to do. Analysis of the structure of the Bank and of its possible banking functions will reveal, however, that large as these aspects may loom to future generations, they are likely for some time to come to have little more than a psychological effect.[43]

"Inevitable Gradualness"

In estimating the importance of the permissive functions of the B. I. S., it might be of interest to note, that before the wave of optimism generated by the Young Plan and its discussion, the late Governor Strong of the New York Federal Reserve Bank—as well qualified a person to judge of such matters as anyone in the United States—considered the scheme of an international gold settlement fund as "more of a dream than a practical thing."[44] The mere fact that an institution has now been created which is primarily charged with certain definite reparation functions but which may in a "permissive" and "auxiliary" manner engage in banking functions of this type, does not translate the "dream" into reality, of course, as the official reception of the idea in the United States has made painfully evident. It has, however, provided the groundwork upon which an imposing structure may be erected.

Above all, it is to be noted that the general banking functions of the B. I. S. are matters for slow development. No one imagines that the central banks of the world will suddenly make large enough gold deposits with the Bank to take care of their settlements with other central banks. Habits of decades upon decades are not changed

[43] It is noteworthy that at least one able student of the gold question (Edie, Journal of Political Economy, Feb., 1929) thinks that the danger of a continually falling price level can hardly be solved through such devices as the cooperation of central banks, international pooling of reserves, and other devices of the "price stabilizationists," because they pass over the crux of the difficulty. "None of them separately, nor all of them together, can offset the secular exhaustion of gold by the prevailing practice of note issue. The range of possible economies by such devices is too narrow and limited to serve the necessities of an effective price stabilization program."

[44] Hearings on H. R. 7895, April 13, 1926, p. 542.

in a few months. Much research will be required before the problem of stabilization will be ripe for action. The possibility of establishing a tendency towards "stability of the world's credit structure" will emerge only from gradually developed confidence in the B. I. S. machinery and the continuous meetings of the directors representing the different central banks.

We can fittingly conclude this survey of the banking functions of the B. I. S. with the opening paragraph of an article by Thomas W. Lamont, written immediately after the Young Plan had been finished, in which he stated:

"Like so many other institutions which in due time have become familiar figures in finance, the Bank for International Settlements had its inception in the need for an organization which would perform a specific and limited set of functions. It was a natural and necessary evolution from the facts of the reparation settlement. If, in years to come, it takes on broader functions, it will be because, and only because, there is a practical and specific use for it in branches of economic life which are not now served."[45]

[45] World Trade (International Chamber of Commerce), July, 1929.

CHAPTER III

THE STRUCTURE OF THE INSTITUTION

A VERY large amount of space in the Young Report is devoted to the organization of the B. I. S.[46] The details are so well worked out that it has been suggested that there must have been fear amongst the experts that the plan would be changed in its fundamental purpose if more room for interpretation were left to subsequent diplomatic and political negotiations. In fact, the details are at times so abundant as to raise the question whether they may not eventually hamper the institution in its development.

The project of the experts has been executed according to their recommendations. A temporary committee, known as the Organization Committee, was appointed by the governors of the central banks of the seven countries represented on the Young Committee. This committee met at Baden-Baden where it drafted the Statutes for the Bank, drew up its charter and took steps to insure that the project would become operative at the proper time.[47] This committee also proceeded with the physical organization of the Bank, its division in departments, etc., and it arranged for the issue of the capital stock and the appointment of the Board of Directors.[48]

The legal foundation for the Bank for International Settlements is a convention between Switzerland on the one hand and Belgium, France, Germany, Great Britain, Italy and Japan on the other, providing for the establishment of the institution. The Swiss Government undertakes to grant a charter for fifteen years as soon as the necessary domestic legislation has been passed, and further to obtain the assent of the Swiss people to the grant of a charter for the entire period of the Bank's existence.[49]

The entire administrative control of the Bank is vested in a Board of Directors, composed first of all of the governors of the central banks of the seven countries from which the membership of the

[46] Part V, the whole of Part VI, and a very long and detailed ANNEX I.

[47] Annex I, 5.

[48] In view of the purposes which the experts had in mind for the B. I. S., it is perhaps of interest to note that they stipulated that the members of the Organization Committee should be chosen "with due regard for the necessity of including in its membership persons versed in banking, the issue of bonds and the work of the present committee of experts."

[49] The Convention, including the charter, and the annex containing the Statutes of the Bank are given in Annex I.

Young Committee had been drawn, or by their nominees. Each of these directors is entitled to appoint another director of his own nationality, while France and Germany are each granted the right to a third directorship during the period of the German annuities. Nine additional directors are to be elected by the original fourteen (or sixteen) directors from a list of candidates drawn up by the governors of the central banks of the eleven other countries participating in the share ownership of the Bank.

The authorized capital of the Bank was fixed at the equivalent of $100,000,000 (500,000,000 Swiss francs), divided in 200,000 shares of equal value. Of these shares 44 per cent can be offered to the central banks of countries other than the original seven which were represented on the Young Committee.

The shares may be freely negotiated but transfer of the shares after issue will not affect the voting power reserved to the central banks in proportion to the number of shares originally issued in each country. The shareholders, of course, participate in the profits as shall be indicated later on.

Under the pressure of a vigorous debate at the Assembly of the League of Nations in September, 1929, the French representative, M. Loucheur, promised that the creditor countries would draw the attention of the Organization Committee to the criticism which had been leveled at the Bank because of the exclusive rights granted to the original reparation creditors and because of the dangers involved in the fact that the institution completely escaped political supervision. The result of this criticism was a substantial modification by the committee meeting at Baden-Baden of several points in the original project.[50]

The Statutes

The Statutes underline the international character of the institution—as contrasted with its reparation functions—by providing that in their arrangements for the issue of portions of the authorized

[50] Cf. League of Nations, **Bank for International Settlements**, Extracts from the minutes of the Tenth Ordinary Session of the Assembly, etc. 1929. II. 41. The Norwegian, Danish, Polish, and Dutch delegations drew attention to the possible future development of the B. I. S. and pointed to Art. 24 of the Covenant of the League which stipulates that: "there shall be placed under the direction of the League all international bureaux already established by general treaties, if the parties to such treaties consent. All such international bureaux and all commissions for the regulation of matters of international interest hereafter constituted shall be placed under the direction of the League." The German and French delegations replied that close association of the League with the B. I. S. might antagonize official opinion in the United States. No action was taken beyond a decision to send the minutes of the discussion to the Organization Committee of the B. I. S. at Baden-Baden. See also Harry D. Gideonse, **The Reparation Settlement of 1930**, Foreign Policy Association **Information Seervice**, May 14, 1930.

capital to banks of countries other than those which participated in the original subscription, the directors should give "consideration to the desirability of associating with the Bank the largest possible number of central banks." Such countries must have currencies which in the opinion of the Board satisfy the practical requirements of the gold or gold exchange standard. It was furthermore provided in the Statutes that elections to vacancies on the Board should be made by the entire Board and not merely by the representatives of the banks of the seven countries interested in reparation. The term of membership on the Board was furthermore reduced from five to three years. These provisions have undoubtedly given the institution a broader international basis and a greater elasticity so as to meet possible future developments.

While the Young Plan would have made the Bank for International Settlements autonomous by providing that the Board would have the right to alter the Satutes,[51] that is to say, to enlarge or restrict the institution's scope of activity, the Statutes provide that all amendments must be proposed by a two-thirds majority of the Board to the General Meeting in which representatives of all the interested central banks—whether represented on the Board or not—will participate. The General Meeting may adopt such amendments by majority vote. In the case of certain specified articles, however—including almost all the important articles of the Statutes, such as those concerned with location, objects, capital, voting power and profits—amendment by the General Meeting must be sanctioned by a law supplementing the charter. The significance of this provision is that the law in question must necessarily be a Swiss law. Switzerland by Article 1 of the *Convention respecting the Bank for International Settlements* undertook to grant the constituent charter, and "not to abrogate" it, "nor to amend or add to it and not to sanction amendments to the Statutes of the Bank" except after "agreement with the other signatory Governments."[52] Thus, if amendments are to take effect, the international convention between the powers and Switzerland will have to be modified and this therefore places the Bank under the political control of the signatories of the convention—each power having a veto—in case of a change of its policy or field of operations.

[51] Cf. **Report of the Experts, Annex I, Sec. IV, Art. 1.**

[52] Cmd. 3484/1930. **Hague Agreements**, Art. 1, p. 110 and **Annex**, Art. 59-60, p. 128.

Authorized Functions

The banking functions of the B. I. S. are set forth in Art. 22-26 of the Statutes as follows:[53]

"The Bank may in particular:

(a) Buy and sell gold coin or bullion for its own account or for the account of central banks;

(b) hold gold for its own account under earmark in central banks;

(c) accept the custody of gold for account of central banks;

(d) make advances to or borrow from central banks against gold, bills of exchange and other short-term obligations of prime liquidity or other approved securities;

(e) discount, rediscount, purchase or sell with or without its endorsement bills of exchange, cheques and other short-term obligations of prime liquidity, including Treasury Bills and other such Government short-term securities as are currently marketable;

(f) buy and sell exchange for its own account or for the account of central banks;

(g) buy and sell negotiable securities other than shares for its own account or for the account of central banks;

(h) discount for central banks bills taken from their portfolio and rediscount with central banks bills taken from its own portfolio;

(i) open and maintain current or deposit accounts with central banks;

(j) accept:

(1) deposits from central banks on account or deposit account;

(2) deposits in connection with trustee agreements that may be made between the Bank and Governments in connection with international settlements;

(3) such other deposits as in the opinion of the Board come within the scope of the Bank's functions.

"The Bank may also:

(k) act as agent or correspondent of any central bank;

(l) arrange with any central bank for the latter to act as its agent or correspondent. If a central bank is unable or unwilling to act in this capacity, the Bank may make other arrangements, provided that the central bank concerned does not object. If in such circumstances it should be deemed advisable that the Bank should establish its own agency, the sanction of a two-thirds majority of the Board will be required;

(m) enter into agreements to act as trustee or agent in connection with international settlements, provided that such agreements shall not encroach on the obligations of the Bank towards third parties; and carry out the various operations laid down therein."[54]

[53] Cf. Report of the Experts, Annex I, Part VI.

The Statutes of the Bank make it clear that the Organization Committee viewed the institution as a bank of central banks. While the institution is authorized to carry out any of the operations which it is allowed to perform with central banks, with "banks, bankers, corporations or individuals of any country," sweeping rights of veto were granted to the respective central banks (Art. 20 and 23) in the case of operations in their particular market or currency:

"The operations of the Bank shall be in conformity with the monetary policy of the central banks of the countries concerned.

"Before any financial operation is carried out by or on behalf of the Bank on a given market or in a given currency the Board shall afford to the central bank or central banks directly concerned an opportunity to dissent. In the event of disapproval being expressed within such reasonable time as the Board shall specify, the proposed operation shall not take place."

Definite prohibitions were imposed with regard to the right to issue notes and to engage in the acceptance business.[55] Both of these questions had aroused a good deal of critical speculation in banking

[54] Annex I, Part VI of the **Report of the Experts** reads as follows:

"b. To invest in Germany, with the assent of the Reichsbank, Reichsmark funds standing to the credit of the Bank, at the Reichsbank, which are not transferable owing to a declaration of transfer postponement. The Bank may realize upon any such investment at its discretion, unless at the time the investment was agreed to by the Reichsbank some stipulation or arrangement affecting the possible sale was made a condition of such agreement. The income from any such investments and the proceeds of such investments if sold shall be deposited to the credit of the Bank at the Reichsbank. Such funds may be held as deposits under the conditions set out in Annex IV of the Plan or be reinvested consistently with the provisions of that Annex.

"If, in the opinion of the Board of Directors of the Bank, counter-obligations issued against its investments in Germany as collateral can be advantageously sold on non-German markets, their net proceeds shall be distributed to the Creditor Countries in such proportions and under the same conditions as would have applied in the case of normal transfers. The accounts of the Creditor Powers shall be charged with the Reichsmark cost of the securities alienated or pledged in the course of any such transaction. If the Board of Directors of the Bank decides that counter-obligations cannot be sold advantageously, the income and net proceeds of the investments when finally disposed of shall be distributed to the creditors.

"The foregoing power is in addition to the general powers of the Bank to make and realize upon investments for its own account at any time, subject to the provision that such investments are to be made with the assent of the central bank concerned.

"The investment powers of the Bank shall never be used in such a way to exercise a predominant influence over business interests in any country. The Board of Directors shall guide the investment undertakings of the Bank accordingly, and shall be entitled if necessary to make special regulations in this respect."

This very specific description was displaced in the Statutes by the short statement: "These Reichsmarks will be administered by the Trustee in the manner provided in the Plan." Whether or not this authorizes the B. I. S. to operate as an investment trust or to organize an investment trust for its German investments in behalf of the creditor countries, is one of the many points which will have to be decided in the actual operation of the institution.

[55] Schemes for an international money have been presented rather frequently. For a historical survey, cf., D. O. Blagoyévitch, **Le Problème d'une Monnaie Internationale**, Paris, 1930. The B. I. S. has stimulated imagination and produced a new crop. Cf. also Paul Otlet, **La Banque Internationale**, Brussels, 1929 (pp. 9-10, 81-86, 190-199). Frank Vanderlip submitted a proposal for an international gold reserve bank to the Pan-European Congress at Vienna in 1926. Cf., Gideonse, First Congress for the United States of Europe, **Current History**, Dec. 1926, pp. 365-368. See also W. Sulzbach, **Die Reparationsbank**, cited, p. 39-41.

circles, and the possibility that the Bank might enter the acceptance field, had caused especially unfavorable comment in leading British financial circles, where the prospect of competition in a field where the London market enjoys a peculiar advantage, was not relished.

Provisions With Regard to Reserves

The provisions with regard to reserves show a special consideration for the possibility of the development of the purely banking aspects of the B. I. S. It is provided that the bank shall be administered with particular regard to maintaining its liquidity and that it "for this purpose shall retain assets appropriate to the maturity and character of its liabilities." "Its short-term liquid assets may include bank notes, cheques payable at sight drawn on first class banks, claims in course of collection, deposits at sight or at short notice in first class banks, and prime bills of exchange of not more than ninety days' usance, of a kind usually accepted for rediscount by central banks."

With an eye to possible developments in the future, it is perhaps of interest to observe that the Young Plan, following well-established central bank traditions, had fixed twenty-five and forty per cent as minimum reserve percentages for time deposits and sight liabilities. But as the B. I. S. is to have a very different set of functions and will not have a currency to regulate or notes to issue, such requirements would have hampered the institution unnecessarily and the Organization Committee therefore removed these specific requirements.[66]

Provisions With Regard to Profits

The section on the distribution of profits of the B. I. S. is perhaps the most detailed and the most optimistic in the Report. There is good reason to believe that the experts elaborated these provisions in view of possible criticism of the plan by socialist and labor parties who might object to large profits from what would be considered as essentially public business. At any rate the following provisions are made:

a. Five per cent of the yearly net profits shall go to the legal reserve fund until it reaches ten per cent of the paid-in capital stock.

b. After this provision has been fulfilled, a cumulative dividend of six per cent on the paid-in share of the capital shall be paid.

c. Twenty per cent of the remainder is to go to the dividend until a maximum of twenty per cent is reached. The directors may decide to reserve this for use in maintaining the cumulative dividend.

d. After making the foregoing provisions one-half of the balance of the profits are to go to the general reserve until it equals the paid-in capital. Thereafter the contribution to the general reserve is to decrease gradually from forty per cent to five per cent, according to a series of proportions between the paid-in capital and the general reserve set up in the plan.

e. The remainder of the profits will be divided as follows:

(i) Seventy-five per cent to the governments or central banks which maintain time deposits at the Bank withdrawable in not less than five years from the time of deposit, and after five years, on not less than one year's notice. This shall be divided annually in proportion to the size of the deposits maintained.

(ii) Twenty-five per cent to be used to aid Germany to pay the last twenty-two annuities provided the German Government elects to maintain a long-term deposit—amounting to the minimum sum of 400,000,000 Reichsmarks. If the deposit is smaller, the participation is to be in proportion and the balance of the profits will go to the purpose described in (i) above.[67]

After having studied the provisions as to the distribution of the Bank's profits, we might consider briefly—insofar as any light is available on this topic—the probability of the earning of such profits. Obviously we are here in the field of supposition and surmise. But if we assume that no new and startling additions will be made by the Bank to the existing stock of banking practices, it is possible to get some ground under our feet even in such a consideration.

The B. I. S. has no power to place money in circulation. In this respect the parallel between a national central bank and an inter-

[66] The Young Plan had provided that "if the Board of Directors is of opinion that these reserve requirements should be altered, they shall have the right by a two-thirds vote to increase, diminish or otherwise modify them consistently with sound banking principles." Cf. the suggestions in Professor Gregory's recent report on the gold question to the International Chamber of Commerce. For a critical view of the omission of a hard and set reserve percentage in the Statutes, cf. Paul Einzig, The Bank for International Settlements (MacMillan, New York) 1929, Chapter VIII. Vide supra note 31 for discussion of a similar provision in the Federal Reserve Act.

[67] Cf. Statutes, Art. 53.
This residual share (e, ii) in the profits seems exceedingly problematical to most observers. In fact, the "profits" section had become a general beast of burden in the final stages of the Paris Conference. Gustav Stolper concludes that the profits could hardly be larger than Germany's loss through the deposit and thinks it would pay Germany not to take advantage of this possibility. Cf. Der Deutsche Volkswirt, June 14, 1929.
The experts, however, had even provided for the eventuality that this deposit and its compound interest should exceed the amount of the last twenty-two annuities, in which case the balance shall be distributed to the creditors in proportion of their "outpayments" during this period. These outpayments are more fully discussed in the special memorandum of the experts which was signed concurrently by all except the American members—and which does not constitute a "part of the Report." They are in some respects the most extraordinary provisions in the work of the experts, for they constitute a clear and undeniable recognition of the unity of the problems of reparations and interallied debts, a recognition which is also implied in the text of the Report itself by the fact that the term of the payments by Germany is made to correspond with the terms of the payments on the interallied debts.

national central bank is incomplete.[58] How far can the B. I. S. make up for this by the furnishing of credit? Obviously not so far as the average central bank, for the B. I. S. will be limited in the aid it can give to its own holdings; it cannot, so to speak, balance its new credits by issuing its own debits in the form of currency. In this respect, therefore, the Bank's possible services are limited to its own rather small funds.

The Bank may issue bonds with the purpose of relending to any central bank. This is not likely to be a very profitable undertaking as it is probable that the central banks will choose to do the more profitable business themselves. In connection with the financing of reparation contracts this may prove important, but here again the possibilities of substantial profits seem very small indeed, for such contracts are from their very nature likely to result in a lower realization financially to the creditor than the value of the goods represented to the debtor. The possibility of making a profit on transactions which would constantly be criticized because of their disappointing return to the Allied creditors seems rather small under those circumstances.

What are the possibilities of profits in the different varieties of deposits? The deposits on clearing account are from their nature exempt here. The demand deposits would seem to be restricted by the vague clause that such deposits must have a relation to the facilitation of international settlements or a connection with the German annuities. This reduces them at first sight—although interpretation might mean much here—to aid in the financing of such "assisted schemes" as we have mentioned, as well as to the deposits of the central banks.

The deposits on the annuity trust account are never likely to be very large as the creditors will obviously be eager to collect,[59] and so we are reduced to the special deposits of France and Germany and the gold settlement functions of the B. I. S. The special deposit of France to guarantee its fellow creditors against losses on the postponable part of the annuities from its large share in the unconditional part is to be made only in case postponement takes place. It becomes by that fact unimportant as a regular source of profits. The German deposit is contingent upon Germany's decision to undertake it, and is, therefore, not definitely to be counted upon.

[58] Cf. K. P. Van der Mandele, The Bank for International Settlements, **Harvard Business Review**, Jan. 1930.

[59] In Art. XVIII of the Trust Agreement between the creditor Governments and the B. I. S., the former agree to pay to the latter for its services as Trustee "a commission of 1 per mille on the actual payments received from the German Government on their behalf." Cmd. 3484/1930, Hague Agreements, p. 79.

The last source of profit left is the gold settlement fund function of the B. I. S. Unquestionably a saving could be made if the Bank could take for the large national central banks the place of the gold settlement fund of the Federal Reserve System. Estimates vary as to the cost of gold shipments from country to country, they include such items as interest, freight, insurance, etc. Few of these estimates exceed $3,000,000 a year, however, and although an estimate calculated in this manner is highly artificial—since it does not include the greatest cost, viz: the psychological effect of such gold shipments on trade and finance—it restricts the margin for possible profits within rather narrow limits.

It is probable also that the B. I. S. would tend to follow a policy of stabilization of the purchasing power of gold, or prices, although no direct reference to this ambition is expressed in the Young Plan beyond the general statement that it is hoped that the Bank "will become an increasingly close and valuable link in the cooperation of central banking institutions generally—a cooperation essential to the continuing of the world's credit structure."[60] It is, of course, possible to regard the omission from the Young Plan of the guarantee of the Dawes plan to Germany that the payments would be revised in case the price level varied more than ten per cent, as an implicit statement of faith that this eventuality would no longer arise.

While the benefits to the business world as a whole will be very large once the objects of an international gold clearing system and some measure of stabilization, are even partially attained, it still remains an open question whether the B. I. S. will be able to make any notable profits from such transactions. It is even possible to foresee certain items of expense, similar to those incurred in administering the gold settlement fund in Washington. The savings and benefits would accrue—if at all realized—to the central banks and the business world as a whole. This analysis, therefore, leads to a most conservative attitude as to the dividend-earning possibilities of the new machinery, although that does not in the least deny its very great possibility for service.

[60] Report of the Experts, Part VI, last par.

Chapter IV

THE RECEPTION OF THE NEW INSTITUTION

THE new institution has met with a most varied reception. Particularly in central banking circles opposition was pronounced and fear was expressed lest the sovereignty of the national institutions be impaired.[61] While the experts—especially with an eye to the Federal Reserve System—had guaranteed the right of the several national central banks in their original project, the Statutes drafted at Baden-Baden made this even more specific.[62] Vested interests in the acceptance business—particularly in London where the growing activity in this field of the Paris market was already causing the gravest concern[63]—protested against the possible entrance of the new Bank into this field of operations, and—as described in a preceding section of this study—secured a definite prohibition of such activities by the institution.

Much of this criticism is bound to seem rather insignificant as the institution actually begins its operations and builds up for itself a field of activity which corresponds to the growing economic and financial interdependence of the world. In this connection Edie has pointed out that the real nature of the Federal Reserve System with respect to the concentration of money in the New York market through broker's loans, is a sharp contradiction of the intentions of

[61] Cf. article on the editorial page of **The Times** (London) of Oct. 11, 1929, entitled "The 'Young' Bank."

[62] Cf. Chap. II of this study. The **Report of the Experts** had provided in Annex I: "If in any country there is more than one bank of issue, the term "central bank" as used in this outline shall be interpreted to mean the bank of issue situated and operating in the principal financial market of that country.

If, in the process of organizing the Bank or in the performance of its functions after establishment, it is found that the central bank of any country or its Governor is unable to act officially or unofficially in any or all the capacities provided for in this outline, or refrains from so acting, alternative arrangements not inconsistent with the laws of that country shall be made. In particular, the Governors of the central banks of the countries whose nationals are members of the present Committee, or as many of them as are qualified to act, may invite to become members of the Board of Directors of the Bank two nationals of any country the central bank of which is eligible under this outline to take part in forming the Board of the Bank but does not do so. The two nationals of that country upon acceptance of the invitation shall be qualified to act in the full capacity of Directors of the Bank as provided in this outline. Further, the Directors of the Bank shall be authorized to appoint, in lieu of any central bank not exercising any or all of the functions, authorities or privileges which this outline provides that central banks make or shall exercise, any bank or banking house of widely recognized standing and of the same nationality. Such bank or banking house, upon appointment and acceptance, shall be entitled to act in the place of the central bank in any or all capacities appropriate to central banks under this outline provided only that such action is not inconsistent with the laws of the country in question."

[63] Cf. H. G. J. Maas Geesteranus, Parijs als acceptcentrum, De Economist, June, 1930.

those who drafted the Federal Reserve Act and who thought they were decentralizing the money market of the United States. "The statutes are one thing; the real forces shaping the destiny of an institution are often quite another thing."[64] In this case, as in that of all the other international organizations of the post-war period, it will be impossible—in the words of an old French proverb—to make an omelet without breaking some eggs.

German Opinion

In Germany—where the possible profits of the Bank are to be a credit item in the later period of the operation of the Young Plan—much critical examination has taken place of its dividend-earning possibilities. Some of the most experienced students of financial problems have taken a very pronounced position in this respect. German opinion of the Young Plan as a whole is well summarized with the remark of Gustav Stolper, editor-in-chief of *Der Deutsche Volkswirt*,[65] that the "Paris conference of experts ended as it should have ended. Criticism can only point out that 2050 is less than 2500 plus the prosperity index and that 1750 million in the next five years is even less than 2050." The B. I. S. is looked upon as a welcome modification of the Transfer Committee; relief is expressed that the machinery will free Germany from the supervisory mechanism of the Dawes Plan. Nationalist opinion tends to follow Dr. Voegler, the German expert who resigned during the Paris conference, in fearing that the B. I. S. might under conditions which would require "postponement," become the controlling owner of securities in most of Germany's leading industries through the investment of non-transferable mark deposits.[66]

French Opinion

French discussion of the Young Plan concerns itself primarily with the unconditional part of the annuity and its mobilization

[64] L. D. Edie, op. cit. p. 277.

[65] Issue of June 28, 1929.

[66] The **Frankfurter Zeitung** published a number of critical articles by German economists and later collected them in a short bundle, entitled **Die Reparationsbank** (edited by E. Welter). Frankfurter Societäts-Druckerei, 1930. Most of the authors take an extremely critical view of the B. I. S. Lautenbach actually claims that the B. I. S. will reduce German exports (p. 32) because of a misunderstanding of the provisions with regard to deliveries in kind; A. Lansburgh—after a curious interpretation of the relations of the Federal Reserve System and European central banks, which he describes as a "duel" which ended with a defeat of the former in 1928—concludes his study of the influence of the B. I. S. on the gold points with the statement that the new institution can only lead to increased "instability" if it enters into gold settlement fund activities (p. 42-47). These misconceptions are satisfactorily countered in the other articles, particularly in E. Welter's summary at the end. The collection of essays is easily the most interesting item in the literature of the subject.

through the Bank. As the total of the payments required from Germany tends to decrease from settlement to settlement, French opinion is inclined to discriminate between the bill for the original "repairs" in devastated areas and the subsequently added "pensions" bill. As the present total payments do not even cover the actual cost of the restoration expenditure in France, it is strongly felt that a certain priority of these "repairs" expenditures over the other reparations claims should be granted and French public opinion therefore tends to see a partial gratification of this demand in the high percentage of the unconditional payments allotted to France. More than in any other country, the protest is heard that the B. I. S. should not be entirely independent of political control. It is regarded as undemocratic that the institution should be entirely autonomous and demands are frequently made that it should in some way be associated with the Finance Committee of the League of Nations. Wide agreement is expressed with Layton's view—as expressed in the London *Economist*—that at least an arrangement requiring a regular revision of the Statutes by international public authority should be authorized in the Statutes. When a question was asked in the Chamber of Deputies about the relation of the Bank to the League, Briand replied that if the question arose, he would do all he could to promote a link between the two institutions.[67] Similar sentiments are rather strong in the Socialist and Labor parties in the other countries, where the idea of a wholly autonomous "capitalistic" bank is resented.[68] Criticism frequently takes the form of fear of American control of the new institution—for its chief function, whether America participates officially or not, will tend to be the collection of funds from European countries directly and indirectly on behalf of American creditors. At the same time most of the Labor parties see in the general idea of the Bank the germ of an instrument of control which fits in well with their program as a whole, while opposition in France as well as in England tends to come from the "liberal" groups. Here the feeling is often expressed that there is already sufficient machinery to take care of the problem without creating another new and ambitious organization. It is pointed out that the central banks

[67] Fear of the impression that this might cause in the U. S., was responsible for a shift in French policy on this point. Vide supra, p. 32 et seq.

[68] The B. I. S. fits in well with the program of the significant movement on the continent toward economic representation (syndicalism)—as opposed to numerical democracy —of which the **Reichswirtschaftsrat**, the **Conseil National Economique**, Fascism's "corporate state," Sovietism and some of the Labor Government's economic projects are the various national expressions, while the International Labor Organization, the Economic and Financial Committees of the League of Nations, the International Chamber of Commerce, the International Federation of Trade Unions (Amsterdam International), etc. are envisaged as the international parallel. Cf. P. Mendès-France, **La Banque Internationale, Cahiers bleus pour la république syndicale (Valois, Paris), Nov. 23, 1929.**

already cooperate and that this can be extended in the future. This group attaches little importance to the advantages of continuous and automatic cooperation which in the eyes of those who favor the Bank, would obviate the psychological tension which is immediately generated by incidental cooperation in a crisis of one type or another.

English Opinion

Opinion in England shows a curious division. There is well nigh unanimity as to the desirability of an institution that will lead to a more economical use of gold. England's special position in this respect has taught a very hard lesson. This even goes to its extreme with a group which professes to see the need for collective European machinery to substitute a monetary unit which would make it possible to assure economic independence of the dollar in case of repetition of "the abnormal conditions prevailing in the United States." J. F. Darling, director of the Midland Bank (London), in a widely circulated article speaks of a possible future independence of the United States and of gold through the collective substitution of public credit as a basis for the currency. Similar "managed currency" views are expressed here and there in political circles, and the German "los vom Gold" movement of a few years ago has found an English parallel.

More representative opinion believes the B. I. S. should remain on well-trodden ground and should if possible be used to strengthen the London financial market. Fear is expressed lest its location in any other center and development into some kind of super-central bank should in any way "impair the pre-eminence which has hitherto been enjoyed by London as the banking and financial centre of the world."[68] While therefore English opinion tends to favor the auxiliary and permissive functions of the new Bank, it is very outspoken in its criticism of the direct reparation functions which are the heart of the scheme as it stands described in the Young Plan. Part of the British industrial depression is ascribed to the deliveries which Germany has made under the reparation agreements to France, Belgium, Italy, and other countries, and it is felt that any mechanism

[68] **Bankers Magazine**, London, June, 1929. London has by no means given up its hopes so far as the location of the Bank is concerned. Art. 2 of the Statutes places the site of the "registered office of the Bank" at Basle, Switzerland, but the possibility of shifting important functions to branch offices remains open. There is no doubt, however, that the present uncooperative attitude in London towards the new institution has its origin in the disappointment concerning the location of the Bank and the important role played by Americans in its management. Einzig points out that the work of the B. I. S. is followed in London, "with a certain suspicion, not to say hostility." See P. Einzig, **L'Europe Nouvelle**, July 12, 193, p. 1060.

See for an interesting survey of the conflicting claims of the various centres, Paul Einzig, **The Bank for International Settlements**, MacMillan (N. Y.) 1930, ch. VII.

which would facilitate such shipments would be harmful to British interests. The British delegation at The Hague worked for a limitation of the deliveries in kind and Great Britain is expected for the same reason to work for the limitation of the reparation functions of the B. I. S. A formal statement by the British delegation at The Hague denied a current report that "the proposal of the British Government for revision of the distribution arrangements . . . is merely a pretext and that the real object is to prevent the creation of the Bank for International Settlements." The British stated that they had "always viewed with the greatest sympathy the objective underlying the Bank's scheme and it is their hope that the proposed institution may contribute to closer cooperation among the central banks. . . in regard to such questions as control of credit and gold reserves. Such proposals as the British delegation may put forward will be directed toward promoting the usefulness of the Bank in this sphere."

The failure to mention the reparation functions was probably not accidental. Meanwhile it remains a fact—as Sir Josiah Stamp's Committee pointed out and as the experience with the payments since 1924 has proved—that payments, if they are to be made at all, must ultimately take the form of goods and services, and that to refuse such payment is essentially to refuse the payments themselves. The fact that Great Britain has managed to receive its share in the German annuities *in cash* because its exceptionally large trade with Germany enabled it to exploit the Reparation Recovery Act procedure in collection, does not disprove this, but rather serves to make it more evident for the other creditor countries.

The Official American Position

In the United States the official attitude has remained consistent with the traditional position that there is no connection between reparation payments and the inter-allied debts, and that as a consequence the United States should have no official relation with the new institution since it was primarily intended to serve as a collection and transfer agency for reparation payments. The government at Washington announced on May 16, 1929 through a statement issued on behalf of Secretary Stimson, that it would "not permit any officials of the Federal Reserve System either to themselves serve or to select American representatives as members of the proposed International Bank."

As the question was immediately raised in the press whether the

Government had any such "permissive" authority over the Federal Reserve System, a statement was later issued in the following terms:

> "In respect to the statements which have appeared in the press in regard to the participation of any Federal Reserve officials in the creation or management of the new proposed International Bank, I wish to make clear the position of this Government.
>
> While we look with interest and sympathy upon the efforts of the committee of experts to suggest a solution and a settlement of the vexing question of German reparations, this Government does not desire to have any American official, directly or indirectly, participate in the collection of German reparations through the agency of this Bank or otherwise. Ever since the close of the war the American Government has consistently taken this position; it has never accepted membership on the Reparations Commission; it declined to join the Allied Powers in the confiscation of the sequestered German property and the application of that property to its war claims.
>
> The comparatively small sums which it receives under the Dawes Plan are applied solely to the settlement of the claims judicially ascertained by the Mixed Claims Commission (the United States and Germany) in fulfillment of an agreement with Germany, and to the repayment of the expenses of the American Army of Occupation in Coblentz, which remained in such occupation on the request of both the Allied nations and Germany.
>
> It does not now wish to take any step which would indicate a reversal of that attitude, and for that reason it will not permit any officials of the Federal Reserve System either to serve themselves or to select American representatives as members of the proposed International Bank."[70]

No formal objection was made to the participation in the Bank of Americans as "private individuals."[71] Arrangements have been made for the participation on a private basis of American banks and while not official, this is likely to lead to effective cooperation. It is clear, however, that the evolution of the gold settlement functions of the Bank would be much aided by direct representation of the Federal Reserve System.

Meanwhile a considerable public agitation has been conducted by Congressman McFadden, Chairman of the House Committee on Banking and Currency with the object of keeping the United States

[70] **The New York Times**, May 17, 1929.

[71] On April 22, 1930, Gates W. McGarrah, until then Chairman of the Board of the Federal Reserve Bank of New York, was elected President and Chairman of the Board of the B. I. S., while Pierre Quesnay, until then Director of the Research Department of the Bank of France, was elected General Manager. Cf. the remarkable letter by Owen D. Young to M. Quesnay (May 7, 1929) at the end of the Paris meetings of the Experts in which Young spoke of the "important" and "unique" contributions of the young expert of the French delegation. (L'Europe Nouvelle, June 15, 1929).

entirely clear of the new institution.[72] The campaign has made little impression in responsible circles and the flotation of the first mobilization issue through the B. I. S. was successfully conducted in spite of efforts to persuade the investing public of its illegality.

Most of the present criticism seems to spring from inability to revise views concerning official policy in accordance with the change from a debtor to a creditor nation which the United States has undergone in the last decade.

Policies which might have been suitable for a nation which owed the rest of the world considerable sums, may prove entirely unsuitable when such a relationship is reversed. Recent experience with the tariff is indicative of the same general principle. With capital invested throughout the world, a large creditor nation is the first to suffer whenever and wherever instability occurs, and is the first to profit by stabilization, even if only partially successful. Such an analysis should lead to a determined support of any effort to substitute planning and coordination for the anarchic expression of conflicting self-interest.

The Bank for International Settlements is such an effort to plan and to coordinate. It will first of all, administer a trust of which the United States is ultimately the principal beneficiary. Seventy per cent of the reparations collected by the Bank from Germany, will be transmitted by the Allies to the United States as payment on the inter-allied debts. Whatever the legal or moral arguments may be, economically there is a close relationship between the foreign exchange transferred by Germany to the Allies and by the Allies to the United States, and whatever the B. I. S. does to facilitate Allied collection of their reparation claims will more certainly guarantee the discharge by the Allies of their own obligations to the United States.

If the Bank should ultimately develop its banking functions into an international gold clearing system and into a successful method of economizing the use of gold, the United States, which has the

[72] Supported by the Hearst press, the **Saturday Evening Post** and similar journals of large circulation, an effort is made to prove that the Bank for International Settlements is a "League Bank," parallel to the Permanent Court of International Justice (World Court) which is described as a "League Court." We are told—in the face of official German ratification and President Von Hindenburg's emphatic recognition of the German responsibility—that the Young plan is "void in law' and that the new international bank is in essence a world conspiracy against the United States. **The New York Times** has well characterized the quality of the campaign when it observed editorially (March 29, 1930) that if Mr. Louis McFadden did not happen to be Chairman of the House Banking and Currency Committee, his opinions on the subject "would probably be set down as indicative of mental disorder. Misstatement of a perfectly well-known fact, utter confusion of inference, ignorance of past and contemporary economic history are jumbled hopelessly together. . . . The most charitable explanation occuring to any one familiar with the questions would be that the speaker was subject to hallucinations."

largest stake in the gold standard as it holds the greatest gold reserve in the world, would be the first to benefit.

From whatever angle the problem is approached, only a greater degree of order and stability in international financial relations can result from the operation and development of the Bank for International Settlements. In a world of which the elements of political integration are evident in the League of Nations, the Locarno Treaties and the Kellogg Pact, the new banking institution furnishes the essential and indispensable expression of the underlying economic and financial integration.

ANNEX I

CONVENTION RESPECTING THE BANK FOR INTERNATIONAL SETTLEMENTS *

THE duly authorised representatives of the Governments of Germany, of Belgium, of France, of the United Kingdom of Great Britain and Northern Ireland, of Italy and of Japan of the one part

And the duly authorised representatives of the Government of the Swiss Confederation of the other part

Assembled at The Hague Conference in the month of January, 1930, have agreed on the following:—

ARTICLE 1

Switzerland undertakes to grant to the Bank of International Settlements, without delay, the following constituent charter having force of law: not to abrogate this charter, not to amend or add to it, and not to sanction amendments to the Statutes of the Bank referred to in paragraph 4 of the charter otherwise than in agreement with the other signatory Governments.

ARTICLE 2

Any dispute between the Swiss Government and any one of the other signatory Governments relating to the interpretation or application of the present Convention shall be submitted to the Arbitral Tribunal provided for by the Hague Agreement of January, 1930. The Swiss Government may appoint a member who shall sit on the occasion of such disputes, the President having a casting vote. In having recourse to this Tribunal the Parties may always agree between themselves to submit their dispute to the President or to one of the members of the Tribunal chosen to act as sole arbiter.

ARTICLE 3

The present Convention is entered into for a period of 15 years. It is entered into on the part of Switzerland under reserve of ratifica-

* Cmd. 3484/1930. Hague Agreements. Document No. 2, Annex VIII.

tion and shall be put into force as soon as it shall have been ratified by the Government of the Swiss Confederation.

The instrument of ratification shall be deposited with the Ministry of Foreign Affairs at Paris. Upon the entry into force of the Convention, the Swiss Government will initiate the necessary constitutional procedure in order that the assent of the Swiss people may be obtained for the maintenance in force during the whole of the Bank's existence of the provisions of the present Convention. As soon as these measures have become fully effective the Swiss Government will notify the other signatory Governments and these provisions shall become valid during the Bank's existence.

Whereas the Powers signatory to the Hague Agreement of January, 1930, have adopted a Plan which contemplates the founding by the Central Banks of Belgium, France, Germany, Great Britain, Italy and Japan and by a financial institution of the United States of America of an International Bank to be called the Bank for International Settlements;

And whereas the said central banks and a banking group including Messrs. J. P. Morgan & Company of New York, the First National Bank of New York, New York and the First National Bank of Chicago, Chicago have undertaken to found the said Bank and have guaranteed or arranged for the guarantee of the subscription of its authorised capital amounting to five hundred million Swiss Francs equal to 145,161,290.32 gram, fine gold, divided into 200,000 shares:

And whereas the Swiss Federal Government has entered into a treaty with the Governments of Germany, Belgium, France, Great Britain, Italy and Japan whereby the said Federal Government has agreed to grant the present Constituent Charter of the Bank for International Settlements and not to repeal, amend or supplement the said Charter and not to sanction amendments to the Statutes of the Bank referred to in Paragraph 4 of the present Charter except in agreement with the said Powers;

1. The Bank for International Settlements (hereinafter called the Bank) is hereby incorporated.
2. Its constitution, operations and activities are defined and governed by the annexed Statutes which are hereby sanctioned.
3. Amendment of Articles of the said Statutes other than those enumerated in Paragraph 4 hereof may be made and shall be put into force as provided in Article 59 of the said Statutes and not otherwise.

4. Articles 2, 3, 4, 9, 15, 20, 25, 28, 46, 53, 56, 59 and 60 of the said Statutes shall not be amended except subject to the following conditions: the amendment must be adopted by a two-thirds majority of the Board, approved by a majority of the General Meeting and sanctioned by a law supplementing the present Charter.
5. The said Statutes and any amendments which may be made thereto in accordance with Paragraphs 3 or 4 hereof respectively shall be valid and operative notwithstanding any inconsistency therewith in the provisions of any present or future Swiss law.
6. The Bank shall be exempt and immune from all taxation included in the following categories:—

   (*a*) stamp, registration and other duties on all deeds or other documents relating to the incorporation or liquidation of the Bank;

   (*b*) stamp and registration duties on any first issue of its shares by the Bank to a central bank, financial institution, banking group or underwriter at or before the time of incorporation or in pursuance of Article 7 or 9 of the Statutes;

   (*c*) all taxes on the Bank's capital, reserves or profits, whether distributed or not, and whether assessed on the profits of the Bank before distribution or imposed at the time of distribution under the form of a coupon tax payable or deductible by the Bank. This provision is without prejudice to the State's right to tax the residents of Switzerland other than the Bank as it thinks fit;

   (*d*) all taxes upon any agreements which the Bank may make in connection with the issue of loans for mobilising the German annuities and upon the bonds of such loans issued on a foreign market;

   (*e*) all taxes on the remunerations and salaries paid by the Bank to members of its administration or its employees of non-Swiss nationality.
7. All funds deposited with the Bank by any Government in pursuance of the Plan adopted by The Hague Agreement of January, 1930, shall be exempt and immune from taxation whether by way of deduction by the Bank on behalf of the authority imposing the same or otherwise.

8. The foregoing exemptions and immunities shall apply to present and future taxation by whatsoever name it may be described, and whether imposed by the Confederation, or by the cantonal, communal or other public authorities.

9. Moreover, without prejudice to the exemptions specified above, there may not be levied on the Bank, its operation or its personnel any taxation other than that of a general character and to which other banking establishments established at Basle or in Switzerland, their operations and their personnel, are not subjected *de facto* and *de jure*.

10. The Bank, its property and assets and all deposits and other funds entrusted to it shall be immune in time of peace and in time of war from any measure such as expropriation, requisition, seizure, confiscation, prohibition or restriction of gold or currency export or import, and any other similar measures.

11. Any dispute between the Swiss Government and the Bank as to the interpretation or application of the present Charter shall be referred to the Arbitral Tribunal provided for by The Hague Agreement of January, 1930.

The Swiss Government shall appoint a member to sit on the occasion of such dispute, the President having a casting vote.

In having recourse to the said Tribunal the Parties may nevertheless agree to submit their dispute to the President or to a member of the Tribunal chosen to act as sole Arbiter.

Done at The Hague, the 20th January, 1930.

J. E. R.

ANNEX

Statutes of the Bank for International Settlements

Chapter I.—*Name, Seat and Objects*

ARTICLE 1

There is constituted under the name of the Bank for International Settlements (hereinafter referred to as the Bank) a Company limited by shares.

ARTICLE 2

The registered office of the Bank shall be situated at Basle, Switzerland.

ARTICLE 3

The objects of the Bank are: to promote the cooperation of central banks and to provide additional facilities for international financial operations; and to act as trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned.

ARTICLE 4

As long as the New Plan as defined in the Hague Agreement of January, 1930 (hereinafter referred to as the Plan), is in force, the Bank—

(1) shall carry out the functions assigned to it in the Plan;
(2) shall conduct its affairs with a view to facilitating the execution of the Plan; and
(3) shall observe the provisions of the Plan in the administration and operations of the Bank;

all within the limits of the powers granted by these statutes.

During the said period the Bank, as trustee or agent for the Governments concerned, shall receive, administer and distribute the annuities paid by Germany under the Plan; shall supervise and assist in the commercialisation and mobilisation of certain portions of the aforesaid annuities; and shall perform such service in connection with the payment of German Reparations and the international settlements connected therewith as may be agreed upon by the Bank with the Governments concerned.

Chapter II.—*Capital*

ARTICLE 5

The authorised capital of the Bank shall be 500,000,000 Swiss gold francs, equivalent to 145,161,290.32 gr. fine gold.

It shall be divided into 200,000 shares of equal gold nominal value.

The nominal value of each share shall also be expressed on the face of each share in terms both of Swiss francs and of the currency of the country in which it is issued, converted at the gold mint parity.

ARTICLE 6

The subscription of the total authorised capital having been guaranteed in equal parts by the Banque Nationale de Belgique, the Bank of England, the Banque de France, the Reichsbank, the Banca

d'Italia, Messrs. X acting in place of the Bank of Japan and Messrs. Y, New York, the Bank may begin business as soon as a minimum of 112,000 shares has been subscribed.

ARTICLE 7

(1) During the two years following incorporation the Board of Directors of the Bank (hereinafter referred to as the Board), shall arrange for the subscription of any unissued portion of the authorised capital.

(2) This unissued portion may be offered to the central bank or other banks of countries which have not participated in the original subscription. The selection of countries in which such shares shall be offered for subscription and the amount to be subscribed in each shall be determined by the Board by a two-thirds majority, provided that offers of shares shall only be made in countries interested in Reparations or in countries whose currencies, in the opinion of the Board, satisfy the practical requirements of the gold or gold exchange standard and that the amount issued in any one of these countries shall not exceed 8000 shares.

(3) The seven banking institutions mentioned in Article 6 shall, in accordance with their several guarantees, subscribe or arrange for the subscription in equal proportions of any part of the authorised capital which at the end of two years remains unsubscribed.

ARTICLE 8

(1) Twenty-five per cent only of the value of each share shall be paid up at the time of subscription. The balance may be called up at a later date or dates at the discretion of the Board. Three months' notice shall be given of any such calls.

(2) If a shareholder fails to pay any call on a share on the day appointed for payment thereof the Board may, after giving reasonable notice to such shareholder, forfeit the share in respect of which the call remains unpaid. A forfeited share may be sold on such terms and in such manner as the Board may think fit; and the Board may execute a transfer in favour of the person or corporation to whom the share is sold. The proceeds of sale may be received by the Bank, which will pay to the defaulting shareholder any part of the net proceeds over and above the amount of the call due and unpaid.

ARTICLE 9

(1) The capital of the Bank may be increased or reduced on the proposal of the Board acting by a two-thirds majority and adopted by a two-thirds majority of the General meeting.

(2) In the event of an increase in the authorised capital of the Bank and of a further issue of shares the distribution among countries shall be decided by a two-thirds majority of the Board. The central banks of Belgium, England, France, Germany, Italy, Japan and the United States of America, or some other financial institution of the last-named country acceptable to the foregoing central banks, shall be entitled to subscribe or arrange for the subscription in equal proportions of at least 55 per cent of such additional shares.

(3) No part of the amount not taken by the banks of these seven countries shall be subscribed in any other country unless it is interested in Reparations or at the time of issue its currency, in the opinion of the Board, satisfies the practical requirements of the gold or gold exchange standard.

ARTICLE 10

In extending invitations to subscribe for capital in accordance with Article 7, paragraph 2, or with Article 9, consideration shall be given by the Board to the desirability of associating with the Bank the largest possible number of central banks.

ARTICLE 11

No shares shall be issued below par.

ARTICLE 12

The liability of shareholders is limited to the nominal value of their shares.

ARTICLE 13

The shares shall be registered and transferable in the books of the Bank.

The Bank shall be entitled without assigning any reason to decline to accept any person or corporation as the transferee of a share. It shall not transfer shares without the prior consent of the central bank, or the institution acting in lieu of a central bank, by or through whom the shares in question were issued.

ARTICLE 14

The shares shall carry equal rights to participate in the profits of the Bank and in any distribution of assets under Articles 53, 54 and 55 of the Statutes.

ARTICLE 15

The ownership of shares of the Bank carries no right of voting or representation at the General Meeting. The right of representation and of voting, in proportion to the number of shares subscribed in each country, may be exercised by the central bank of that country or by its nominee. Should the central bank of any country not desire to exercise these rights they may be exercised by a financial institution of widely recognised standing and of the same nationality appointed by the Board, and not objected to by the central bank of the country in question. In cases where there is no central bank, these rights may be exercised, if the Board thinks fit, by an appropriate financial institution of the country in question appointed by the Board.

ARTICLE 16

Any subscribing institution or banking group may issue, or cause to be issued to the public the shares for which it has subscribed.

ARTICLE 17

Any subscribing institution or banking group may issue to the public certificates against shares of the Bank owned by it. The form, details and terms of issue of such certificates shall be determined by the bank issuing them, in agreement with the Board.

ARTICLE 18

The receipt or ownership of shares of the Bank or of certificates issued in accordance with Article 17 implies acceptance of the Statutes of the Bank and a statement to that effect shall be embodied in the text of such shares and certificates.

ARTICLE 19

The registration of the name of a holder of shares in the books of the Bank establishes the title to ownership of the shares so registered.

Chapter III.—*Powers of the Bank*

ARTICLE 20

The operations of the Bank shall be in conformity with the monetary policy of the central banks of the countries concerned.

Before any financial operation is carried out by or on behalf of the Bank on a given market or in a given currency the Board shall

afford to the central bank or central banks directly concerned an opportunity to dissent. In the event of disapproval being expressed within such reasonable time as the Board shall specify, the proposed operation shall not take place. A central bank may make its concurrence subject to conditions and may limit its assent to a specific operation, or enter into a general arrangement permitting the Bank to carry on its operations within such limits as to time, character and amount as may be specified. This article shall not be read as requiring the assent of any central bank to the withdrawal from its market of funds to the introduction of which no objection had been raised by it, in the absence of stipulations to the contrary by the Central Bank concerned at the time the original operation was carried out.

Any Governor of a central bank, or his alternate or any other Director specially authorised by the central bank of the country of which he is a national to act on its behalf in this matter, shall, if he is present at the meeting of the Board and does not vote against any such proposed operation, be deemed to have given the valid assent of the central bank in question.

If the representative of the central bank in question is absent or if a central bank is not directly represented on the Board, steps shall be taken to afford the central bank or banks concerned an opportunity to express dissent.

ARTICLE 21

The operations of the Bank for its own account shall only be carried out in currencies which in the opinion of the Board satisfy the practical requirements of the gold or gold exchange standard.

ARTICLE 22

The Board shall determine the nature of the operations to be undertaken by the Bank. The Bank may in particular:

(*a*) buy and sell gold coin or bullion for its own account or for the account of central banks;

(*b*) hold gold for its own account under earmark in central banks;

(*c*) accept the custody of gold for the account of central banks;

(*d*) make advances to or borrow from central banks against gold, bills of exchange and other short-term obligations of prime liquidity or other approved securities;

(*e*) discount, rediscount, purchase or sell with or without its endorsement bills of exchange, cheques and other short-

term obligations of prime liquidity, including Treasury Bills and other such Government short-term securities as are currently marketable;

(*f*) buy and sell exchange for its own account or for the account of central banks;

(*g*) buy and sell negotiable securities other than shares for its own account or for the account of central banks;

(*h*) discount for central banks bills taken from their portfolio and rediscount with central banks bills taken from its own portfolio;

(*i*) open and maintain current or deposit accounts with central banks;

(*j*) accept:

(i) deposits from central banks on current or deposit account;

(ii) deposits in connection with trustee agreements that may be made between the Bank and Governments in connection with international settlements;

(iii) such other deposits as in the opinion of the Board come within the scope of the Bank's functions.

The Bank may also:

(*k*) act as agent or correspondent of any central bank;

(*l*) arrange with any central bank for the latter to act as its agent or correspondent. If a central bank is unable or unwilling to act in this capacity, the Bank may make other arrangements, provided that the central bank concerned does not object. If in such circumstances it should be deemed advisable that the Bank should establish its own agency, the sanction of a two-thirds majority of the Board will be required;

(*m*) enter into agreements to act as trustee or agent in connection with international settlements, provided that such agreements shall not encroach on the obligations of the Bank towards third parties; and carry out the various operations laid down therein.

ARTICLE 23

Any of the operations which the Bank is authorised to carry out with central banks under the preceding Article may be carried out

with banks, bankers, corporations or individuals of any country provided that the central bank of that country does not object.

ARTICLE 24

The bank may enter into special agreements with central banks to facilitate the settlement of international transactions between them.

For this purpose it may arrange with central banks to have gold earmarked for their account and transferable on their order, to open accounts through which central banks can transfer their assets from one currency to another and to take such other measures as the Board may think advisable within the limits of the powers granted by these Statutes. The principles and rules governing such accounts shall be fixed by the Board.

ARTICLE 25

The Bank may not:

(*a*) issue notes payable at sight to bearer;

(*b*) "accept" bills of exchange;

(*c*) make advances to Governments;

(*d*) open current accounts in the name of Governments;

(*e*) acquire a predominant interest in any business concern;

(*f*) except so far as is necessary for the conduct of its own business, remain the owner of real property for any longer period than is required in order to realise to proper advantage such real property as may come into the possession of the Bank in satisfaction of claims due to it.

ARTICLE 26

The Bank shall be administered with particular regard to maintaining its liquidity, and for this purpose shall retain assets appropriate to the maturity and character of its liabilities. Its short-term liquid assets may include bank notes, cheques payable at sight drawn on first class banks, claims in course of collection, deposits at sight or at short notice in first class banks, and prime bills of exchange of not more than ninety days' usance, of a kind usually accepted for rediscount by central banks.

The proportion of the Bank's assets held in any given currency shall be determined by the Board with due regard to the liabilities of the Bank.

Chapter IV.—*Management*

ARTICLE 27

The administration of the Bank shall be vested in the Board.

ARTICLE 28

The Board shall be composed as follows:

(1) The Governors for the time being of the central banks of Belgium, France, Germany, Great Britain, Italy, Japan and the United States of America (hereinafter referred to as *ex officio* Directors), or if any of the said Governors are unwilling or unable to hold office, their respective nominees (hereinafter referred to as substitute nominees).

The tenure of office of a substitute nominee shall be within the discretion of the Governor by whom he is appointed, but shall terminate in any case when that Governor vacates office.

Any *ex officio* Director may appoint one person as his alternate who shall be entitled to attend and exercise the powers of Director at meetings of the Board if the Governor himself is unable to be present.

(2) Seven persons representative of finance, industry or commerce, appointed one each by the Governors of the central banks mentioned in sub-clause (1), and being of the same nationality as the Governor who appoints him.

During the continuance of the liability of Germany to pay Reparation annuities, two persons of French and German nationality respectively, representative of industry or commerce, appointed by the Governors of the Bank of France and of the Reichsbank respectively, if they so desire.

If for any reason the Governor of any of the seven institutions above mentioned is unable or unwilling to serve as Director, or to appoint a substitute nominee under sub-clause (1), or to make an appointment under sub-clause (2), the Governors of the other institutions referred to or a majority of them may invite to become members of the Board two nationals of the country of the Governor in question, not objected to by the central bank of that country.

Directors appointed as aforesaid, other than *ex officio* Directors or their substitute nominees, shall hold office for three years but shall be eligible for reappointment.

(3) Not more than nine persons to be elected by the following procedure:—

The Governor of the central bank of every country, other than those mentioned in sub-clause (1), in which capital has been subscribed at the time of incorporation shall be entitled to submit a list of four candidates of his own nationality for directorship, which may include his own name. Two of the candidates on each list shall be representative of finance, and the other two of industry or commerce. From these lists the Board may elect, by a two-thirds majority, not more than nine persons.

The Directors so elected shall be divided by lot into three groups as nearly as may be equal in number, of which one group shall retire at the end of the first, one at the end of the second, and one at the end of the third financial year of the Bank. The retiring Directors shall be eligible for re-election.

At the first meeting of Directors in the second and succeeding financial years the Board may elect by a two-thirds majority not more than three Directors from a panel of candidates composed of lists of persons with similar qualifications to those specified in connection with the first election. The Governors of the central banks of every country, other than those mentioned in sub-clause (1), in which capital has at the date of such meeting been subscribed shall be entitled to submit a list of four persons to be included in the panel. Directors so elected shall hold office for three years, but shall be eligible for re-election.

If in any of the countries referred to in the preceding paragraph there is no central bank, the Board by a two-thirds majority may nominate an appropriate financial institution to exercise the right of submitting a list of candidates for election.

ARTICLE 29

In the event of a vacancy occurring on the Board for any reason other than the termination of a period of office in accordance with the preceding Article the vacancy shall be filled in accordance with the procedure by which the member to be replaced was selected. In the case of Directors other than *ex officio Directors*, the new Director shall hold office for the unexpired period only of his predecessor's term of office. He shall, however, be eligible for re-election at the expiration of that term.

ARTICLE 30

Directors must be ordinarily resident in Europe or in a position to attend regularly at meetings of the Board.

ARTICLE 31

No person shall be appointed or hold office as a Director who is a member or an official of a Government or a member of a legislative body, unless he is the Governor of a central bank.

ARTICLE 32

Meetings of the Board shall be held not less than ten times a year. At least four of these shall be held at the registered office of the Bank.

ARTICLE 33

A member of the Board who is not present in person at a meeting of Directors may give a proxy to any other member authorising him to vote at that meeting on his behalf.

ARTICLE 34

Unless otherwise provided by the Statutes, decisions of the Board shall be taken by a simple majority of those present or represented by proxy. In the case of an equality of votes, the Chairman shall have a second or casting vote.

The Board shall not be competent to act unless a quorum of Directors is present. This quorum shall be laid down in a regulation adopted by a two-thirds majority of the Board.

ARTICLE 35

The members of the Board may receive, in addition to out-of-pocket expenses, a fee for attendance at meetings and/or a remuneration, the amounts of which will be fixed by the Board, subject to approval of the General Meeting.

ARTICLE 36

The proceedings of the Board shall be summarised in minutes which shall be signed by the Chairman.

Copies of or extracts from these minutes for the purpose of production in a Court of Justice must be certified by the General Manager of the Bank.

A record of decisions taken at each meeting shall be sent within eight days of the meeting to every member.

ARTICLE 37

The Board shall represent the Bank in its dealings with third parties and shall have the exclusive right of entering into engagements on behalf of the Bank. It may however delegate this right to a member or members of the Board or of the permanent staff of the Bank, provided that it defines the powers of each person to whom it delegates this right.

ARTICLE 38

The Bank shall be legally committed *vis-à-vis* third parties by the signature of the President or by two signatures either of members of the Board or of members of the staff who have been duly authorised by the Board to sign on its behalf.

ARTICLE 39

The Board shall elect from among its members a Chairman and one or more Vice-Chairmen, one of whom shall preside at meetings of the Board in the absence of the Chairman.

The Chairman of the Board shall be President of the Bank.

He shall hold office for three years and shall be eligible for re-election.

Subject to the authority of the Board, the President will carry out the policy and control the administration of the Bank.

He shall not hold any other office which, in the judgment of the Board, might interfere with his duties as President.

ARTICLE 40

At the meeting of the Board at which the election of a Chairman is to take place, the Chair shall be taken by the oldest member of the Board present.

ARTICLE 41

A General Manager shall be appointed by the Board on the proposal of the President. He will be responsible to the President for the operations of the Bank and will be the chief of its operating staff.

The Heads of Departments, and any other officers of similar rank, shall be appointed by the Board on recommendations made by the President after consultation with the General Manager.

The remainder of the staff shall be appointed by the General Manager with the approval of the President.

ARTICLE 42

The departmental organisation of the Bank shall be determined by the Board.

ARTICLE 43

The Board may, if it thinks fit, appoint from among its members an Executive Committee to assist the President in the administration of the Bank.

The President shall be a member and *ex officio* Chairman of this Committee.

ARTICLE 44

The Board may appoint advisory committees chosen wholly or partly from persons not concerned in the Bank's management.

ARTICLE 45

As long as the Plan is in force, the Board shall convene the Special Advisory Committee referred to in the Plan, upon receipt of the notice therein provided for.

Chapter V.—*General Meeting*

ARTICLE 46

General Meetings of the Bank may be attended by nominees of the central banks or other financial institutions referred to in Article 15.

Voting rights shall be in proportion to the number of shares subscribed in the country of each institution represented at the meeting.

The Chair shall be taken at General Meetings by the Chairman of the Board or in his absence by a Vice-Chairman.

At least three weeks' notice of General Meetings shall be given to those entitled to be represented.

Subject to the provisions of these Statutes, the General Meeting shall decide upon its own procedure.

ARTICLE 47

Within three months after the end of each financial year of the Bank, an Annual General Meeting shall be held upon such date as the Board may decide.

The meeting shall take place at the registered office of the Bank.

Voting by proxy will be permitted in such manner as the Board may have provided in advance by regulation.

ARTICLE 48

The Annual General Meeting shall be invited:

(*a*) to approve the Annual Report, the Balance-Sheet upon the Report of the Auditors, and the Profit and Loss Account, and any proposed changes in the remuneration, fees or allowances of the members of the Board;

(*b*) to make appropriations to Reserve and to special funds; and to consider the declaration of a dividend and its amount;

(*c*) to elect the auditors for the ensuing year and to fix their remuneration; and

(*d*) to discharge the Board from all personal responsibility in respect to the past financial year.

ARTICLE 49

Extraordinary General Meetings shall be summoned to decide upon any proposals of the Board:

(*a*) to amend the Statutes;

(*b*) to increase or decrease the capital of the Bank;

(*c*) to liquidate the Bank.

Chapter VI.—*Accounts and Profits*

ARTICLE 50

The financial year of the Bank will begin on 1st April and end on 31st March. The first financial period will end on 31st March, 1931.

ARTICLE 51

The Bank shall publish an Annual Report, and at least once a month a Statement of Account in such form as the Board may prescribe.

The Board shall cause to be prepared a Profit and Loss Account and Balance Sheet of the Bank for each financial year in time for submission to the Annual General Meeting.

ARTICLE 52

The Accounts and Balance Sheet shall be audited by independent auditors. The auditors shall have full power to examine all books and accounts of the Bank and to require full information as to all

its transactions. The auditors shall report to the Board and to the General Meeting and shall state in their Report:

(*a*) whether or not they have obtained all the information and explanations they have required; and

(*b*) whether, in their opinion, the Balance Sheet dealt with in the Report is properly drawn up so as to exhibit a true and correct view of the state of the Bank's affairs according to the best of their information and the explanations given to them, and as shown by the books of the Bank.

ARTICLE 53

The yearly net profits of the Bank shall be applied as follows:—

(*a*) five per cent of such net profits, or such proportion of five per cent as may be required for the purpose, shall be paid to a reserve fund called the Legal Reserve Fund until that Fund reaches an amount equal in value to ten per cent of the amount of the paid-up capital of the Bank for the time being;

(*b*) thereafter such net profits shall be applied in or towards the payment of a dividend of six per cent per annum on the amount of the paid-up capital of the Bank. This dividend shall be cumulative;

(*c*) as to the residue (if any) of such net profits twenty per cent shall be paid to the shareholders until a maximum further dividend of six per cent (which shall be non-cumulative) is reached, provided that the Board may in any year withhold all or any part of this additional payment and place it to the credit of a special dividend reserve fund for use in maintaining the cumulative six per cent dividend provided for in the preceding paragraph or for subsequent distribution to the shareholders;

(*d*) after making provision for the foregoing, one-half of the yearly net profits then remaining shall be paid into the General Reserve Fund of the Bank until it equals the paid-up capital. Thereafter forty per cent shall be so applied until the General Reserve Fund equals twice the paid-up capital; thirty per cent until it equals three times the paid-up capital; twenty per cent until it equals four times the paid-up capital; ten per cent until it equals five times the paid-up capital; and from that point onward, five per cent.

In case the General Reserve Fund, by reason of losses

or by reason of an increase in the paid-up capital, falls below the amounts provided for above after having once attained them, the appropriate proportion of the yearly net profits shall again be applied until the position is restored.

(*e*) As long as the Plan is in force any remainder of the net profits after meeting the foregoing requirements shall be disposed of as follows:—

(i) as to seventy-five per cent to such of the Governments or central banks of Germany and the countries entitled to share in the annuities payable under the Plan, as have maintained time deposits at the Bank subject to withdrawal in not less than five years from the time of deposit or after four years on not less than one year's notice. This sum shall be distributed annually in proportion to the size of the deposits maintained by the respective Governments or central banks in question. The Board shall have the power to determine the minimum deposit which would justify the distribution provided for;

(ii) as to twenty-five per cent as follows:—

If the German Government elects to make a long-term deposit with the Bank withdrawable only on the terms specified under sub-clause (i) above and amounting to the minimum sum of 400,000,000 reichsmarks, the said twenty-five per cent shall go into a Special Fund, to be used to aid Germany in paying the last twenty-two annuities provided for in the Plan.

If the German Government elects to make such long-term deposit amounting to a sum below 400,000,000 reichsmarks, the participation of the German Government shall be reduced in proportion, and the balance shall be added to the seventy-five per cent referred to in sub-clause (i) above.

If the German Government elects not to make any such long-term deposit, the said twenty-five per cent shall be distributed as provided in sub-clause (i) above.

The Special Fund referred to above shall carry compound interest, reckoned on an annual basis, at the maximum current rate paid by the Bank on time deposits.

If the Special Fund should exceed the amount required to pay the last twenty-two annuities, the balance shall be

distributed among the creditor Governments as provided for in the Plan.

(*f*) At the expiration of the period referred to in the first paragraph of sub-clause (*e*) the disposal of the remainder of the net profits referred to in sub-clause (*e*) shall be determined by the General Meeting on the proposal of the Board.

ARTICLE 54

Reserve Funds

The General Reserve Fund shall be available for meeting any losses incurred by the Bank. In case it is not adequate for this purpose, recourse may be had to the Legal Reserve Fund provided for in Article 53 (*a*).

These reserve funds, in the event of liquidation, and after the discharge of the liabilities of the Bank and the costs of liquidation, shall be divided among the shareholders.

Chapter VII.—*General Provisions*

ARTICLE 55

The Bank may not be liquidated except by a three-fourths majority of the General Meeting. It shall not in any case be liquidated before it has discharged all the obligations which it has assumed under the Plan.

ARTICLE 56

(1) If any dispute shall arise between the Bank, on the one side, and any central bank, financial institution, or other bank referred to in the present Statutes, on the other side, or between the Bank and its shareholders, with regard to the interpretation or application of the Statutes of the Bank, the same shall be referred for final decision to the Tribunal provided for by The Hague Agreement of January, 1930.

(2) In the absence of agreement as to the terms of submission either party to a dispute under this Article may refer the same to the Tribunal, which shall have power to decide all questions (including the question of its own jurisdiction) even in default of appearance by the other party.

(3) Before giving a final decision and without prejudice to the questions at issue, the President of the Tribunal, or, if he is unable to act in any case, a member of the Tribunal to be designated by him forthwith, may, on the request of the first party applying therefor, order any appropriate provisional measures in order to safeguard the respective rights of the parties.

(4) The provisions of this Article shall not prejudice the right of the parties to a dispute to refer the same by common consent to the President or a member of the Tribunal as sole arbitrator.

ARTICLE 57

In all cases not covered by the preceding Article, or by some other provision for arbitration, the Bank may proceed or be proceeded against in any court of competent jurisdiction.

ARTICLE 58

For the purpose of these Statutes:—

(1) Central bank means the bank in any country to which has been entrusted the duty of regulating the volume of currency and credit in that country; or, where a banking system has been so entrusted, the bank forming part of such system which is situated and operating in the principal financial market of that country.

(2) The Governor of a central bank means the person who, subject to the control of his Board or other competent authority, has the direction of the policy and administration of the Bank.

(3) A two-thirds majority of the Board means not less than two-thirds of the votes (whether given in person or by proxy) of the whole directorate.

ARTICLE 59

Amendments of any Articles of these Statutes other than those enumerated in Article 60 may be proposed by a two-thirds majority of the Board to the General Meeting and if adopted by a majority of the General Meeting shall come into force, provided that such amendments are not inconsistent with the provisions of the Articles enumerated in Article 60.

ARTICLE 60

Articles 2, 3, 4, 9, 15, 20, 25, 28, 46, 53, 59 and 60 cannot be amended except subject to the following conditions: the amendment must be adopted by a two-thirds majority of the Board, approved by a majority of the General Meeting and sanctioned by a law supplementing the Charter of the Bank.

J. E. R.

ANNEX II

PARAGRAPHS FROM THE TRUST AGREEMENT BETWEEN THE CREDITOR GOVERNMENTS AND THE BANK FOR INTERNATIONAL SETTLEMENTS *

ARTICLE IV.

All the sums transferred from the account of the Agent General for Reparations or paid on account of the German Annuities shall be received into an Annuity Trust Account. All the sums paid by Germany on account of the annuities shall be managed by the Trustee and shall be employed and distributed each month upon receipt as follows, on the understanding that the obligations of the Trustee in regard to the said sums shall be only those normally incumbent upon a banker for the execution of a trust agreement, and in no case shall the Trustee permit the accounts or credits of any Creditor Government to be overdrawn.

(*a*) In the first place, the sums required monthly for the service of the German External Loan, 1924, shall be transferred to the account or order of the Trustees of the said Loan, in conformity with the terms of the General Bond securing it, on the understanding that this appropriation shall have priority over all others. This service constitutes a first charge, expressly provided for as such, on the German annuities, whether non-postponable or postponable.

(*b*) One-twelfth of the share of each Creditor Government in the non-postponable Annuity shall be forthwith allocated in the books of the Trustee to that Government within the Annuity Trust Account in currencies other than reichsmarks. If one of the Governments has mobilised a part of the non-postponable annuity allotted to it, there shall be retained every month, out of the share due to that Government in virtue of the present paragraph, the sums required for the service of the obligations issued and outstanding, in conformity with the conditions of the contracts made on the occasion of such issues; these sums, deducted from the share of each of the Governments concerned in the issues, shall be transferred each month to a Trustee Account relating to the loan thus issued and shall remain there until the

* Cmd. 3484/1930. Hague Agreements, p. 110 et seq.

moment when payments have to be made for interest service and amortisation of the obligations, in accordance with the terms of the respective loan agreements.

(*c*) One-twelfth of the share due to each Government for settling the quota of Deliveries in Kind allotted to it in a given year shall be forthwith allocated in the books of the Trustee to that Government within the Annuity Trust Account in Reichsmarks, if no other provision has been made by the Governments concerned, including Germany, for the settlement of this quota.

(*d*) One-twelfth of the sum due to each Government in each Annuity, after the allocations provided in paragraphs (*b*) and (*c*), shall be forthwith allocated in the books of the Trustee to that Government within the Annuity Trust Account in currencies other than reichsmarks.

(*e*) In application of Article 88 of the annexes to the Experts' Report of June 7, 1929 (hereinafter called the "Experts' Report"), the sums allocated as provided in the preceding paragraphs will remain without interest in the National Sub-Divisions of the Annuity Trust Account up to the equivalent of the following amounts:

France	68,037,500
Great Britain	26,587,500
Italy	13,887,500
Belgium	7,512,500
Roumania	1,312,500
Jugoslavia	5,462,500
Greece	450,000
Portugal	862,500
Japan	862,500
Poland	25,000
	125,000,000 R.M.

All sums standing in the National Sub-Divisions of the Annuity Trust Account in excess of the above minimum non-interest-bearing deposits, may be freely withdrawn from the said account by the Creditor Governments, in accordance with the following paragraph.

(*f*) Subject to the foregoing and in accordance with the provisions of the Plan, the Trustee is authorised and agrees to transfer at such dates as may be indicated any sum allocated to any Government within the Annuity Trust Account to any interest-bearing account in the Bank for International Settlements or to any other bank or banker, or otherwise to dispose of it as the interested Creditor Government may direct; but in no case will the Trustee permit the accounts or credits of any Creditor Government to be overdrawn.

ARTICLE X.

The Trustee declares that it has taken note of the provisions of the Plan with respect to the functions assigned to the Bank of International Settlements in connection with any declaration of the German Government requiring the convening of the Special Advisory Committee and the Trustee agrees and the Creditor Governments confirm that the Trustee shall carry out the functions assigned to it in that respect and in the manner described in the Plan.

The Trustee takes note that, in application of Article 124 of the Experts' Report, any recommendation of the Advisory Committee affecting the rights of the Creditor Governments shall not bind those Governments unless it is accepted and confirmed by the Creditor Governments which participated in the decision of September 16, 1928, to set up the Committee of Experts; and that similarly any recommendation affecting the rights of the German Government shall not bind that Government unless it is accepted and confirmed by that Government.

ARTICLE XI.

Immediately on receiving from the German Government in conformity with the Plan notification of suspension of transfer of the whole or part of the postponable annuity the Trustee shall inform the Creditor Governments accordingly.

(*a*) As soon as this suspension becomes effective:

(1) The Trustee shall continue to transfer each month the sums necessary for assuring the service of the external loan of 1924 in accordance with paragraph (*a*) of Article IV of this contract;

(2) The Trustee shall continue to credit or transfer each month in accordance with the provisions of paragraph (*b*) of Article IV of this Contract the sums paid by the German Government in respect of the non-postponable Annuity;

(3) In the event of a partial postponement, in any year, of

transfer or of payment of the postponable annuities, the Trustee shall distribute the part of the postponable annuities actually paid and transferred in that year in such a manner as to ensure, so far as may be possible, that the receipts of the several Creditor Governments out of the aggregate payments actually transferred by Germany (whether on account of the unconditional or of the postponable annuities) shall be proportionate to their respective shares in the total annuities due by Germany under the Plan in respect of that year, provided always that the Creditor Governments entitled to an allocation out of the unconditional annuities shall in no case receive less than the allocations due to them respectively out of those annuities;

(4) Should the amount of the postponable annuities paid and transferred by Germany be insufficient to provide in full to each of the Creditor Governments its due share of the total German payments transferred, having regard to the allocations out of the unconditional annuity referred to in the previous paragraph, the Trustee shall, in accordance with the provisions of paragraph 202 of the Annexes to the Experts' Report withdraw from the Guarantee Fund, to be constituted by the French Government, the sums necessary to make up the deficiency to each of the Creditor Governments concerned. The sums so withdrawn from the Guarantee Fund shall be repaid to that fund in accordance with the Plan at the end of the period of postponement.

(*b*) During the course of a partial or total postponement of transfer the Trustee may accept from Germany payments in Reichsmarks in respect of the amounts of which transfer has been postponed and of which payment has not been postponed under the Plan. The Trustee is authorised to give to the German Government receipts for such payments which will be in the nature of temporary acknowledgments. These acknowledgements will be converted into final receipts *pro tanto* on the transfer of the amounts postponed, or on the utilisation of the Reichsmarks accepted by the Trustee under this paragraph for payments in respect of deliveries in kind or in respect of Reparation Recovery Acts and similar procedures under the special programmes referred to in Annex IV of the Experts' Report.

(*c*) Any sums accepted in Reichsmarks by the Trustee under paragraph (*b*) above will be distributed in the form of credits in the Trustee's books in such a way as to complete the credits due to each Creditor Government for the year in question under the Plan, and the Guarantee Fund in so far as it has been drawn upon. These Reichsmarks will be administered by the Trustee in the manner provided in the Plan.

(*d*) The parties to this contract agree that all investments of such Reichsmark funds effected by the Trustee shall be made for the individual account of the Creditor Governments, as their interests require, for their advantage and at their risk. In particular the proceeds of investment of Reichsmarks credited to the Guarantee Fund will be assigned to the French Government.

ARTICLE XII.

The Creditor Governments and the Trustee agree that the Trustee shall have exclusive authority to act as agent of the Creditor Governments or any one of them, so far as concerns the operations relating to the mobilisation of the German Annuities, and that in the discharge of the functions and in the use of the authority entrusted to it as Agent in this matter, the Trustee will be guided by the provisions of the plan which govern mobilisation. In particular the Trustee will abide by the following provisions:

(*a*) When it appears to the Trustee practically possible to proceed with an issue of bonds representing the capitalization of a part of the Annuity, the Trustee will inform the Creditor Governments. The possibility of proceeding with such an operation shall also be considered by the Trustee whenever so required by one or more of the Creditor Governments.

If after examination, and in cases other than that dealt with in the second part of paragraph (*b*) below, the Trustee considers such an operation inopportune, it shall indicate to the Governments concerned the reasons for this opinion.

(*b*) If one or more of the Governments concerned intend themselves to proceed in their own markets with an issue, the trustee shall fix the minimum conditions of issue at the time of the operation.

If, however, such an operation is intended in connection with internal conversion operations, the Government concerned will be free to offer the bonds on its own market at whatever conditions it may be able to obtain, without its being necessary for the Trustee to consider whether the

creation of the bonds is opportune, and on the understanding that the bonds will only be quoted on the market of issue.

(*c*) If one or more of the Governments concerned propose an international issue on other markets than their own respective markets, the Trustee shall at their request, if it considers on examination that conditions on these markets permit such an operation, take steps to proceed with this issue and determine, after making sure that the Central Banks concerned have no objection, the markets on which such offers may be made.

In the case of such issues, the various Governments having a share not yet mobilised in the non-postponable portion of the annuity shall be given the right to participate in proportion to the following figures: France 500, Great Britain 84, Italy 42, Japan 6.6, Jugo Slavia 6, Portugal 2.4.

No issue of an international character may however be made in the market of any of the countries the Government of which has signed this trust agreement without the approval of that Government both as regards the amount of the issue and as regards the conditions on which it shall be authorised.

(*d*) If it is decided to proceed with an issue and if one or more of the Creditor Governments so request, the Trustee shall arrange, in agreement with those Governments and with the Issuing Bankers, the detailed conditions on which the bonds shall be issued.

(*e*) The Trustee shall apply to the German Government, as provided in the Plan, for the creation of issuable Bands.

(*f*) The Trustee declares its willingness to act as trustee or representative of the bondholders, or as agent for all issues of bonds made in pursuance of the provisions of the Plan relative to mobilisation, to the extent provided in the Loan Contract to be concluded between the trustee and the governments concerned on the occasion of an issue of such obligations.

(*g*) The expenses and commissions to be received by the trustee both for the creation of bonds and for their issue shall be determined between the trustee and the governments concerned with regard to the importance of the functions which may be attributed to it on the occasion of each operation.

ARTICLE XX.

The Creditor Governments and the Trustee agree that, if any dispute shall arise between them or any of them with regard to the meaning or application of the provisions of this Trust Agreement, the dispute shall be referred for final decision to the Tribunal provided for by the Hague Agreement of January, 1930, unless the parties to the dispute shall elect to refer the same to the President of the Tribunal or a member thereof selected as sole arbitrator.

ANNEX III

FIRST MONTHLY STATEMENT OF THE B. I. S.

ON the basis of a report in *The New York Times* of July 6, 1930, the first monthly statement of the Bank for International Settlements, gave its position as of July 30, 1930, as follows:

Assets

			Swiss francs	*Percentage*
I	Cash on hand or in current account with other banks		5,120,427.01	.5
II	Funds employed:			
	(1) On demand	23,046,207.46		2.1
	(2) On 15 days' notice	443,337,877.34		40.8
	(3) On 16-90 days' notice	27,684,147.37		2.6
	Total		494,068,232.17	
III	Investments for a maximum of 90 days (at purchase price)			
	(1) Acceptances	239,294,955.00		22.0
	(2) Negotiable Treasury Bonds	261,351,737.56		24.1
	(3) Other short-term investments	15,920,538.25		1.5
	Total		516,567,270.81	
IV	Investments for more than 90 days' (at purchase price)		68,352,425.33	6.3
V	Miscellaneous Assets		1,612,446.10	.1
	GRAND TOTAL		1,085,720,801.42	100.0

Liabilities

I	Capital			
	Authorized: 200,000 shares of 2,500 Swiss gold francs, total 500,000,000 Swiss francs			
	Issued: 164,000 shares, one-fourth paid in		102,500,000.00	9.4

II	Special Deposits			
	(1) Annuities Trust Account	151,230,713.84		13.9
	(2) German Government Deposit	123,533,891.41		11.4
	Total		274,764,605.25	
III	Demand Deposits			
	(1) Central Banks			
	a. For their a/c.	111,106,650.50		10.2
	b. For a/cs others	153,676,724.61		14.0
	(2) Other deposits	3,642,433.24		.3
	Total		268,425,808.36	
IV	Time Deposits			
	Undistributed proceeds of the German Government's 5½% 1930 International Loans		438,198,394.45	40.4
V	Miscellaneous Liabilities		1,931,993.36	.2
	GRAND TOTAL		1,085,720,801.42	100.0

Date Due

May 2
Aug 1
Jan 17
Dec 24
Nov 9
Jan 16
May 24
Nov 5
OCT 4 1947
Dec 10/18
JUL 8 1949 7/22

COLUMBIA UNIVERSITY LIBRARIES
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Gideonse
International bank.
JUL 8 8 1949 Henry Schloss
8/11 1113 Amsterdam
Renewed

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TITLE